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MAPS CÔTE D'IVOIRE: PRIVATE SECTOR DESCRIPTION

Volume V: Private Sector Strategy Recommendations

FINAL REPORT

Bureau for Private Enterprise
U.S. Agency for International Development

Prepared for:	*USAID/Côte d'Ivoire* *AFR/ONI*
Prepared by:	*Coopers & Lybrand* *J.E. Austin Associates*
Sponsored by:	*Private Enterprise Development Support Project II* *Project Number 940-2028.03* *Prime Contractor: Coopers & Lybrand*

June 1993

Coopers
&Lybrand

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Prepared by:	*Michael S. Borish, J.E. Austin Associates* *Ellen Goldstein, Consultant, Coopers & Lybrand* *Robert D. Haslach, J.E. Austin Associates*

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ACRONYMS

ADB	African Development Bank
AFRAM	African American Insurance Company
AIBEF	*Association Ivorienne du Bien-Etre Familiale*
ASDI	Presumptive Tax
BCEAO	*Banque Centrale des Etats de l'Afrique de l'Ouest*[1]
BEAC	*Banque des Etats de l'Afrique Centrale*[2]
BNDA	*Banque Nationale pour le Développement d'Agriculture*
BTP	*Batiments et Travaux Publiques* (Public Works)
BVA	*Bourse des Valeurs d'Abidjan*
CAA	*Caisse Autonome d'Amortissement*
CAISTAB	*Caisse de Stabilisation*
CAMA	Central African Monetary Area
CFAF	*Communauté Financiere Africaine* (Franc parity fixed at CFAF 50 = 1 FF)
CIE	*Compagnie Ivoirienne d'Electricité*
CIPHARM	*Côte d'Ivoire Pharmaceutique*
CMF	*Crédit Mutuel Francais*
CNPS	*Caisse Nationale de Prévoyance Sociale*
CREP	*Caisse Rurale d'Epargne et de Prets*
DCGTx	*Direction Centrale des Grands Travaux*
DSP	*Direction des Services Pharmaceutiques*
EEC	European Economic Community
FIAU	*Fonds d'Investissement et d'Amenagement Urbain*
FPCL	*Fonds de Prets aux Collectivités Locales*
FUCEC	*Fédération des Unions Coopératives d'Epargne et de Crédit (du Togo)*
GDP	Gross Domestic Product
GOCI	Government of Côte d'Ivoire
HIV	Human Immunodeficiency Virus
HHS	Health and Human Services
HMO	Health Maintenance Organization
HPD	*Hôspital Protestant de Dabou*
IEC	Information, Education and Communication
IGF	Insurance Guarantee Fund
ILO	International Labor Organization
MAF	*Mutuelle d'Assistance Familiale*
MAPS	Manual for Action in the Private Sector

[1] Dakar-- Central Bank for the WAMU, consisting of Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal and Togo

[2] Yaoundé-- Central Bank for the CAMA, consisting of Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea and Gabon

MBA	Master's Degree in Business Administration
MC	*Mutuelle du Centre*
MDP	Municipal Development Project
MOH	Ministry of Health
NGO	Non-governmental Organization
OIC	Opportunities Industrialization Center
ORS	Oral Rehydration Salts
PME	*Petites et Moyennes Entreprises* (SMEs in English)
PMI	*Protection Maternelle et Infantine*
PSP	*Pharmacie de la Santé Publique*
REDSO	Regional Development Support Office (of USAID)
SME	Small- and/or Medium-Scale Enterprise
SMIG	*Salaire Minimum Interprofessionnel Garanti*
SODECI	*Société des Eaux de Côte d'Ivoire*
SOE	State-owned Enterprise
STD	Sexually Transmitted Disease
UA	*Union Africaine (d'Assurance)*
UNICEF	United Nations International Children's Educational Fund
UNIDO/UNDP	United Nations Industrial Development Organization and Development Program
USAID	United States Agency for International Development
UVICOCI	*Union des Villes et Communes de Cote d'Ivoire*
WADB	West African Development Bank (BOAD in French)
WAMU	West African Monetary Union (UMOA in French)
WOCCU	World Council of Credit Unions

I. INTRODUCTION

In fiscal 1992, USAID-Côte d'Ivoire became a bilateral program. While USAID has long had projects and activities in Côte d'Ivoire, namely housing, municipal services, health sector activities and training programs under REDSO status, the classification of the program changed as a result of economic decline in Côte d'Ivoire in recent years.

This change in organization and circumstances prompted an interest in new activities and approaches to help the government (GOCI) with its economic difficulties. One option for USAID was to pursue certain policy initiatives and private sector activities to complement work done with the public sector in Côte d'Ivoire. Such an option prompted USAID to engage a MAPS (Manual for Action in the Private Sector) exercise, with specific focus on targeted policy reforms and private sector initiatives in the health and municipal service sectors to be considered for USAID's Concept Paper, due October 1993.

Two consultants, Michael S. Borish (J.E. Austin Associates) and Susan K. Kolodin (USAID/RD/H/HSD), visited Côte d'Ivoire in September 1992 and worked with the Mission to structure the Scope of Work for MAPS. Mr. Borish concentrated on the overall private sector and urban services. Ms. Kolodin focused on private sector issues in the health sector. Activities included reviews of dozens of documents, meetings with key Mission staff, interviews with GOCI, World Bank and other officials, and a field visit to Sinfra where consultants met with the vice-mayor, a private pharmacist, several market traders and shopkeepers, and a Peace Corps volunteer active in municipal services.

This visit was followed by two missions consisting of three consultants in November 1992 and February 1993: Michael S. Borish (Team Leader, J.E. Austin Associates), Robert D. Haslach (J.E. Austin Associates), and Ellen Goldstein (private consultant). During this period, the consultants met with dozens of private sector, government and donor officials in Abidjan, Bouaké, Korhogo and Dabou, focusing on the private sector in general as well as specific considerations regarding health and municipal services.

The following document, MAPS Volume V: Private Sector Strategy Recommendations, provides a review of recommendations made by the MAPS team to USAID for their strategic planning purposes for the coming three-five years. The recommendations are structured to respond to specific needs found in Côte d'Ivoire based on USAID feasibility criteria. Recommendations apply to the private sector in general, as well as specific areas in health and municipal services. In all three cases, it is recommended that certain kinds of activities be dedicated to improving public sector performance as a means of enhancing private sector capabilities and opportunities.

The strategy recommendations take into account considerations expressed by USAID after preliminary recommendations had been formulated and submitted by the MAPS team to USAID. As such, Volume V represents a distillation of thoughts and comments derived from earlier work present in Volumes I-III, as well as a wide range of observations from focus groups and discussions summarized in Volume IV.

All consultants involved would like to thank USAID-Côte d'Ivoire for their cooperation, attentiveness and courtesy. Particular thanks go out to Fritz Gilbert (USAID Director), David Mutschler (Deputy Director), Margaret Alexander (Chief Legal Advisor and Acting Program Officer), Carleene Dei (Municipal Services), Scott Johnson (Municipal Services), John Paul James (Health Services), Oren Whyche (Private Sector Development) and Lydie Boké-Mene (Deputy Program Officer) for their frequent help and support. The consultants would also like to thank Sydney Lewis of Coopers & Lybrand for her assistance, cooperation and support.

II. PRIVATE SECTOR STRATEGY CONSIDERATIONS

A. INTRODUCTION

Any institution engaged in private sector development in Côte d'Ivoire should recognize a number of constraints and considerations before formulating and implementing strategy. Some of these include the following:

1. **Côte d'Ivoire is a bifurcated society in terms of income distribution and economic structure.**

Most people live in rural areas, engage in farming or petty commerce, and have relatively low incomes. The economic decline in Côte d'Ivoire in recent years has exacerbated structural weaknesses that were long camouflaged by protectionist policies and better terms of trade in an inflationary world market in the 1960s-1970s. Today, purchasing power is limited, volume and profit margins are low, and there is little value-added produced by the vast majority of producers who are individuals and microenterprises. Subsistence is less of a problem because of Côte d'Ivoire's abundant agricultural resources, although disease is rampant because of poor municipal services, a poorly functioning health system, and insufficient education on basic preventive health measures.

A small portion of the population has benefitted handsomely from the substantial economic development that has occurred since independence. However, much of that wealth is concentrated in a small number of formal sector enterprises, often state-run, which are now in difficult financial condition. The weak condition of these companies, combined with the failure to establish a broad tax base over the last thirty years, has made it difficult to provide normal government services while also running these public enterprises. The result is a major structural change in the economy and governance for which the country is not yet politically and psychologically prepared.

2. **The business and investment climate in Côte d'Ivoire is characterized by (a) general uncertainty about the present government and its impact on the country's economic future, (b) an inflexible exchange rate policy and overvalued exchange rate, (c) excess government regulation of formal enterprises, (d) traditionally high tax rates, (e) civil service suspicion of privatization, (f) an inadequate financial sector to stimulate rural development, (g) weak local purchasing power, (h) a limited local market, and (i) very high costs of production that make Côte d'Ivoire uncompetitive by global standards in most activities.**

Côte d'Ivoire's microenterprises are demonstrating resilience during difficult times, and there are areas where substantial informal trade and other activity appear to be occurring. Nevertheless, this "deformalization" of much of the economy is also undermining industrial production where so much value-added was produced in the past. That Côte d'Ivoire is in no position to alter the value of its currency to reflect its weakened economy has led to lost markets for its exports and enormous quantities of finished goods imported from neighboring states (e.g., Nigeria, Ghana) with untied and floating currencies. An overvalued currency has also slowed the privatization process, as government does not want to discount book values and private investors do not want to invest in assets which could lose at least 33% of the nominal value with currency depreciation[3]. Under such circumstances, the government is facing a shrinking formal tax base, weakening its revenue stream and ability to provide services. As such, it is tempted to increase taxation on microenterprises and other "informal" enterprises when it is most important to create jobs and incomes that will ultimately broaden the tax base in the long term. All of these factors, combined with a secular decline in cocoa and coffee prices, have contributed to the decline in economic development in Côte d'Ivoire. It will take years and radical political and psychological changes for this climate to become attractive for investors again.

3. Côte d'Ivoire will need to create more than 260,000 jobs each year by the end of the century to avoid a serious, urban-oriented unemployment crisis. This represents a 62% growth in jobs required between 1990-2000.

Côte d'Ivoire's population growth rate is currently an annualized 3.8%, and urbanization is at 4.7%. Given the limited absorptive capacity of the formal sector, most of these jobs will have to be found in agriculture, agro-processing, and artisanal manufacturing and services. Artisanal activity will also be needed in the fast growing urban areas. To meet these needs, the government will have to (a) scale down its own operations to be less of a burden fiscally, (b) reduce real wages and general production costs, (c) allow municipalities to have greater control over how revenues should be spent, and (d) be more aggressive with privatization. These will all be necessary, but not sufficient, for an economic turnaround. To foster an environment in which unemployment and underemployment are reduced, Côte d'Ivoire will also need to attend to larger issues such as overall competitiveness, currency devaluation, increased private sector lending, greater equity (and less debt) in enterprise financing, increased export earnings, debt service, increased private investment (domestic and foreign), increased productivity in the primary and secondary sectors, stimulation of greater competition rather than state controls and monopolies, and a general improvement in the operating environment to reduce barriers to entry into the marketplace. In addition, these realities will also need to occur for needed infrastructure, municipal and health services to be provided in <u>secondary</u> towns to avoid an extreme concentration of problems in Abidjan.

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[3] The World Bank and other sources claim the CFAF in Côte d'Ivoire is overvalued by 50%. Informal measures observe higher overvaluation, which would further reduce the book value of assets. Quite clearly, markets are already discounting book values in light of this reality.

4. **Informal and formal sector enterprises share many similar characteristics because most "formal" firms are small-scale African-owned enterprises focusing on household services, commercial trade, and basic construction. They are often owner-operated, with fewer than five employees.**

Taking this as the typical profile of a formal enterprise, and adding the number of people in the informal economy, this accounts for 90% of the employed work force. The implications for "private sector development" are significant, because it implies that Côte d'Ivoire is still predominantly a low-technology, low-skilled microenterprise economy. There are very few large-scale enterprises in Côte d'Ivoire, and SMEs are likewise limited in number. As such, rather than force the formalization of the majority of enterprises, private sector strategy needs to focus on making the economic environment attractive, open and transparent so that microenterprises can freely grow without being burdened by unnecessary constraints such as excessive taxation and restrictive public works contracting requirements (see MAPS Volume II: Private Sector Provision of Municipal Services, and Chapter III of this document).

5. **Formal private companies view government as a major constraint to private sector growth because of high tax rates and excessive regulation (e.g., labor).**

While this is changing slowly, Côte d'Ivoire will have to permit large-scale companies to generate sufficient profitability at lower tax rates to compete against rival competitors, and let the market put them out of business when they are insufficiently efficient to compete. One of the ways to encourage such efficiency would be to devalue the currency, which would stimulate labor-intensive methods of production, allow more accurate pricing for better resource management, and encourage private investors to place financial resources in productive assets rather than hedging against devaluation and inflation.

6. **Informal operators view government as less of a problem than large-scale formal private companies, but are informal to avoid the problems faced by formal companies.**

Informal firms have been harassed less in Côte d'Ivoire than in other West African countries. Nevertheless, as the government reduces tax rates on the larger private firms, it is likely to pursue smaller firms to increase fiscal revenues. While some of this may be justified, government will ultimately provide greater long-term prospects for economic growth if it permits these enterprises to develop and employ more people without onerous tax burdens. This can and should be done by keeping effective tax rates low on small-scale enterprises, and making government operations less costly and more efficient in the provision of public goods and services. Decentralization of functions and control of tax revenues and expenditures is a step in the right direction. This will also (a) help improve infrastructure and the provision of municipal services, (b) create more employment at the local level, and (c) spread the risk of urbanization and its political and economic repercussions.

7. The financial sector is in weak condition, and structurally inadequate to meet Côte d'Ivoire's rural development needs.

Excessive bank lending to state-owned enterprises and the dramatic weakening of Côte d'Ivoire's terms of trade rendered much of the consolidated banking system's loan portfolio non-performing. The result has been (a) the collapse of the National Agricultural Development Bank (BNDA), (b) net Treasury outflows from the government of about CFAF 150 billion from 1986-1989, (c) a steady drain of 4% cf GDP on the government because of the poor performance of state-owned enterprises, and (d) a general lack of credit for productive private agricultural and industrial enterprises.

Meanwhile, despite four major banks having a national network, there is little relevance of the formal banking sector to the scale of operations of most people and enterprises in Côte d'Ivoire. Banks do not want small accounts with limited deposits because these are costly to administer. Banks likewise do not want to entertain small credit requests because of limited return relative to time, staff resources, and administrative costs. As banks have regulated interest rates that limit potential profits, they have been forced to ration the supply of credit primarily to commercial traders who are liquid, generate rapid turnover, and are good customers for fee-generating bank activities (e.g., letters of credit). Aside from the relatively undeveloped credit union movement which is currently aided by the Canadians and French, there are no viable rural financial institutions to mobilize savings, allocate credit, and play an appropriate intermediary role in the development of agriculture, agro-processing and artisanal industries critical to rural development and general employment. (The only "institution" that appears to be prevalent is the *tontines*, which are rotating savings and solidarity clubs that are not sufficient as implementing agents for private sector interventions.)

8. Côte d'Ivoire's formal economy is hindered by a lack of professional management and technical skills, largely resulting from (a) limited access to advanced business management education, (b) the longstanding tradition of state-run enterprises managed by state-appointed civil servants, and (c) the traditional import-substitution policy that shielded companies in Côte d'Ivoire from maintaining competitive standards.

A new class of professionally trained managers who can compete according to global standards will be needed for Côte d'Ivoire's enterprises to function and create jobs. Some of this can be remedied by business management training at the university and lower-level commercial and professional institutes. However, most of these skills will be learned more effectively from on-the-job training. There is no better substitute for on-the-job training than to have world class operations invest in plant, equipment and other assets in Côte d'Ivoire to hire and train people, penetrate markets, and expand the tax base. (This is one of the reasons why Côte d'Ivoire's failure to service debt for the last several years erodes its image in international capital markets, and why debt swaps, a reactivated and open stock market, and an aggressive approach to privatization are needed to recapture lost confidence.) As Côte d'Ivoire has a history of openness to private and foreign investment, it will have to reshape its strategy and thinking to not lose its well deserved goodwill and potentially beneficial opportunities for growth. This will require (a) lower taxes, (b) reduced factor costs of production, (c) less regulation and bureaucracy, (d) a more aggressive effort to privatize state-owned enterprises, and (e) active and responsive money and capital markets with open information flows.

9. Human resources are viewed as a sensitive question in Côte d'Ivoire, and resolution of certain disputes will help determine the future labor force of Côte d'Ivoire.

About 30% of the population is "non-Ivoirian", usually from neighboring countries such as Burkina Faso and Mali. If Côte d'Ivoire retains its liberal immigration policy, labor should be abundant, available for a wide range of economic functions, and priced accordingly. However, if Côte d'Ivoire changes this policy, this will limit the labor pool and force Ivoirians to perform certain job tasks in agriculture and industry that have often been delegated to foreign workers.

B. GENERAL OBJECTIVES OF PRIVATE SECTOR SUPPORT

While there are many private sector development areas USAID might pursue, the recommendations described in Chapters II-IV represent key interventions the MAPS team believes to be most feasible. Support for the GOCI economic reform plan is of paramount importance to stimulate competitiveness. It must be stated that this economic reform program has emerged largely as a result of donor pressure, primarily the World Bank, and that one of the clear obstacles to restoration of Ivorian competitiveness in a radically changed global economy has been the lack of political consensus in the government. Nevertheless, in light of the GOCI's inability to service debt and provide the financial and technical means by which to restore economic growth and confidence, the plan is on record as the government's commitment to economic reform.

As such, USAID's efforts should focus on providing support for key elements of this program, including: (1) tax reform to reduce rates, make collections more consistent and transparent, permit municipalities to control a greater portion of the expenditure process, and limit the degree of taxation on small businesses; (2) privatization of most state enterprises to reduce their burden on the public via subsidies and losses; (3) civil service reform to reduce central government head count and wages, decentralize government functions to the maximum degree feasible, and limit overall public expenditure for better fiscal management; (4) training public officials to better understand the need for accountability and controls, and the positive role to be played by a dynamic private sector in ensuring public revenue flows at all levels of government; (5) facilitation of business licensing and registration to make it easier administratively to invest in Côte d'Ivoire; and (6) reduction in factor costs of production to promote business competitiveness and encourage improved resource management.

While support for all these reforms will help, they will not be sufficient. One of the key issues that USAID should support to the extent possible is a change in the currency exchange regime, and most certainly currency depreciation. This does not necessarily mean delinkage from the French franc or a European Currency Unit (if the latter ever comes to exist), although some of the world's strongest economies do not have hard currencies. What it does mean is that Côte d'Ivoire (and the other CFAF countries) should adopt a flexible exchange rate system, otherwise the country will not be able to compete because its overvalued currency will not reflect the level of (non)competitiveness in the economy. The consequence will be what is already happening: the gradual disappearance and viability of the formal sector. The policy of overvaluation undermines exports, while limited confidence encourages capital flight and foreign exchange becomes less available. Thus, rather than benefitting from linkage to a hard currency, the reality in Côte d'Ivoire (and other CFAF countries) today is that foreign exchange (and general liquidity) is scarce. As such, Côte d'Ivoire is showing some of the same characteristics of other countries that previously overvalued their currencies to the point where they had no foreign exchange reserves left and the system broke down. The system is breaking down in Côte d'Ivoire, as evidenced by the enormous debt accumulated in recent years, the implosion of formal sector enterprises (public and private), and the general decline in municipal services.

The MAPS team (and virtually every independent observer consulted, including Ivorian businessmen exposed to foreign trends) found it abundantly clear that Côte d'Ivoire (as with the CFAF zone in general) is extraordinarily expensive by international standards. As long as these countries refuse to accept a change in currency values, there will be no way for them to price resources (e.g., labor, capital, electricity) in a way that accurately reflects their value based on international standards of supply and demand. In the past, "international standards", border prices and other concepts may have seemed distant and abstract to Côte d'Ivoire because terms of trade for cocoa and coffee were good, and neighboring non-CFAF African countries were among the most miserably governed and mismanaged countries in the world. However, today, this is not universally the case. The result is that the Ivorian formal sector is shrinking, the industrial sector is squeezed in both the formal and informal sectors, and manufactured goods are coming in from soft currency countries like Nigeria and Ghana while producers in Côte d'Ivoire are reduced to subsistence farming, artisanal production and low-margin services like petty trade and food preparation. All of this undermines the country's ability to compete and provide needed health and municipal services, which will only add to structural problems to be corrected in the future when the labor force is greater.

In addition to the reforms mentioned above and a change in currency valuation, USAID should also support efforts to (1) promote political pluralism, (2) improve legal institutions, and (3) assist with the decentralization of government functions. Political pluralism is needed not simply as a matter of philosophy in favor of individual participation in the political process, but as a necessary prerequisite for the development of institutions that provide a more stable, "transparent" operating environment for the economy. The development of improved legal institutions will assist with settlements disputes, property rights, and other areas in which legal mechanisms and arbitration may be required. This is important, particularly given the frequent difference in interpretation between traditional and "modern" law in business affairs (e.g., land tenure). Decentralization of government functions is essential to ensure that people have input into the sensitive issues of (1) whom to tax, (2) how to tax, (3) at what rate to tax, and (4) how to properly allocate tax revenues. These critical issues are far more effectively resolved at local levels on the condition that institutional capacity exists at these levels. Addressing and resolving these questions at local levels of government will be necessary to expand the tax base for the provision of public goods and services that do not need to be organized through the central government. MAPS Volume II: Private Sector Provision of Municipal Services discusses this relationship to the provision of municipal services.

Specific interventions the MAPS team encourages USAID to review for broad private sector support are discussed in Section II-C below. Chapters III and IV focus on municipal services and health services, respectively.

C. GENERAL PRIVATE SECTOR STRATEGY RECOMMENDATIONS

1. Promote financial market development by assisting the *Caisses Rurales d'Epargne et de Prets* to address the serious vacuum that exists between the formal banking sector and the costly and inefficient informal financial sector.

a. Description

USAID would provide up to $1 million over three-five years to assist one or several regional units of CREP, the *Caisses Rurales d'Epargne et de Prets*. USAID support would be used for training, technical assistance and community outreach on a pilot basis to support savings and credit activities. One regional configuration would be supported through year 3, with replication and expansion in years 4 and 5 if successful. WOCCU in the U.S. and FUCEC in Togo would be enlisted to assist with specific CREP needs. (CREP has already received some technical assistance from FUCEC of Togo.) Efforts would be made to (1) increase savings, (2) assist with credit risk analysis and management, (3) promote greater community awareness of the benefits of credit unions, and (4) develop financial institutions that can serve as a needed intermediary for agricultural and artisanal cooperatives, "productive" enterprises, and community-based organizations engaged in self-help municipal service and health care activities. It is believed that such an approach, involving the posting of a long-term advisor, and with a medium- to long-term institutional perspective, can have an impact on urban and rural enterprise development in Côte d'Ivoire.

b. Background

CREP already has an existing network, and is currently restructuring nationwide with a focus on savings mobilization, member education and improved management. CREP has about 50 functioning credit unions in Côte d'Ivoire, but has long been burdened by a significant portion of non-performing loans on its books, reflecting poor management, supervision and member education. These loans date back to the early 1983-1984 drought the country faced, and the general erosion in the economy thereafter. (Fortunately, while CREP placed its deposits with the now defunct BNDA from 1975-1990-- CFAF 362 million at 9/90-- CREP deposits have been recovered.) Thus, from both a deposit and loan perspective, CREP has significant work to do to ensure proper management and planning, restore confidence and become viable.

c. Current Activities

CREP was founded in 1976 as a joint GOCI- *Crédit Mutuel Francais* (CMF) project. CMF exited in 1981, and returned in 1988 to provide technical assistance and training. *Desjardins* of Quebec has also provided assistance with intensive project support in Mans. CREP has also received support from FUCEC of Togo (which is also supported by WOCCU of the U.S.). Assistance from the ILO/BCEAO is also anticipated in the development of an inter-credit union funding market to permit borrowing and lending between surplus and deficit credit unions, although this has not yet been developed.

d. Problems

While CREP has succeeded in mobilizing savings in a difficult environment in recent years, it is still virtually nascent as an organization and movement after 17 years of existence. Savings at 9/30/92 were CFAF 612 million, or about $2.5 million. This represents only 0.1% of consolidated savings in the banking system. Its membership (18,630) and total savings accounts (20,709) are small relative to the potential market. Accounts are likewise small, with each member savings approximating CFAF 33,000 (about $130). Its 76 branches, 50 of which are functional, show average membership of 245, probably about one-sixth the critical mass of members needed to create a dynamic institution. The lack of dynamism is evident in the limited interest earnings shown on the income statement, reflecting the small performing loan total reported on the balance sheet. The net effect is less interest income earned from loans than paid out on deposits, and a weakening effect on the consolidated capital position that is already deeply negative due to a loan portfolio that is 90% non-performing.

e. Solutions

CREP is rightly following a deliberate strategy to mobilize savings, educate its members on rights and responsibilities, train its personnel for improved operating efficiency, and generally build confidence in the community. USAID assistance should focus on helping CREP continue to build on these fundamentals, perhaps with a pilot focus in the first three years to concentrate impact for future replication which would occur in years 4-5 if successful. Efforts should be made to increase CREP's ability to generate publicity, extend its community outreach program, and ultimately build its membership with proper management capacity, reporting, and resource allocation. Ultimately, CREP will have to increase its allocation of credit to generate sufficient interest income to increase its capital base and membership. CREP will likely need assistance in credit management at local levels to ensure high collection rates for liquidity and sufficient loan turnover for broad-based participation in credit resources. USAID assistance should determine CREP needs and respond in a manner that complements existing support from CMF and *Desjardins*, avoids redundancy, and does not distort the operating cost structure of CREP.

(As a targeted policy reform, USAID could target the liberalization of interest rates for non-bank financial institutions, including credit unions, as a first step towards a more market-oriented, deregulated financial sector. Admittedly, this would be very difficult, and perhaps impractical in light of USAID's limited resources. However, while the banking system has long followed a regime of fixed interest rates, USAID is encouraged to promote the exemption of "semi-formal" institutions from WAMU restrictions. Given the inability of the formal banking system to serve the vast majority of businesses in Côte d'Ivoire, these "semi-formal" institutions should be encouraged to pursue a regime of flexible interest rates on both savings and credit to accurately reflect the scarcity of money as a commodity-- savings-- as well as the risk taken in a difficult business environment-- credit. People must be given incentives to place their limited moneyed savings with an institution. The key criterion must be safekeeping, to protect depositors and instill confidence. Paying interest to depositors is a legitimate "rental charge" so these institutions have the liquidity and stable funding sources needed to allocate credit. Likewise, liberalized interest rates would permit these institutions to price credits according to risk, and generate profits that will help build equity and allocate needed provisions for loan loss reserves.)

f. Benefits

USAID assistance would strengthen a non-bank financial institution with a growing but fragile national network. Such institutional strengthening would have the beneficial effect of providing a financial intermediary equipped to play a supportive role in other prospective activities USAID might pursue in the region. For instance, efforts to promote community-based organizations to provide and pay for municipal services would benefit from a stronger local savings and credit institution. Two examples: (1) neighborhood clean-up efforts paid for by households, with proceeds used to generate savings for additional, more ambitious work; and (2) credit union loans to these associations for working or fixed capital needs like trash bins and dumpsters for garbage collection, and asphalt for road maintenance. The availability of such financial services would facilitate the implementation of improved delivery of health services, such as hospital-based generic pharmaceutical purchases and sales for health plan members. Any USAID efforts to promote cooperatives and other job-creating enterprises would benefit from a strong credit union institution because these intermediaries are member-driven and structured to respond to member needs. In contrast, banks have little financial incentive to provide services to the vast majority of individuals and enterprises in Côte d'Ivoire because of the net costs involved.

g. USAID Feasibility Criteria

Because of the geographically targeted approach to this intervention, assisting CREP meets USAID feasibility criteria as discussed below:

- Financial Resources: While a more thorough analysis would have to be conducted, it is expected that such a three-five year project would not exceed $1 million. This would include one long-term U.S. advisor, several Ivorian operating personnel (e.g., member education, accountant, credit manager), commodity support (e.g., motorbikes, one or two vehicles), and short-term technical assistance and training.

- Management Resources: USAID does not have the management resources in place for such a project. Thus, any assistance to CREP should involve FUCEC of Togo, WOCCU of the U.S., or comparable organizations.

- "Comparative Advantage": The U.S. has a respectable credit union movement with an active international outreach program. While the U.S. credit union movement is less prominent than its counterpart in Canada, this is due to the limited number of chartered banks in Canada as opposed to the more than 12,000 bank companies in the U.S. The U.S. credit union movement has been professionally managed, healthy and liquid at a time when many U.S. banks have been in fragile financial condition and after hundreds of bank companies have been closed since the mid-1980s.

- Complementarity: With a regional focus, USAID support for CREP can be effective without conflicting with the efforts of France and Canada to strengthen CREP. A more careful review of assistance would have to include project design that takes these considerations into account.

- Monitoring and Evaluation: Project impact would be easy to monitor and evaluate. Key variables could include (1) membership increases, (2) aggregate and average savings, (3) aggregate and average loans, (4) loan repayment performance, (5) increases in net interest income, total net income, and total capital, (6) internal operating efficiencies and performance, and (7) savings and credit information as a percentage of comparable consolidated bank data. Efforts could also be made to determine employment and income gains, and enterprise growth.

- Prospects for Success: CREP has significant weaknesses, not the least of which is a limited number of trained personnel to manage a dynamic institution. However, CREP's greatest problems involve (1) limited resources available for deposit from existing and prospective members, (2) lack of public confidence in financial institutions due to the past performance of banks, development banks, and government financial institutions, (3) the amount of time needed to clean up its non-performing loan portfolio and make more loans to members, and (4) the small number of members (18,630) and functioning branches (50) after 17 years of existence. Nevertheless, none of these problems is insurmountable. CREP has begun to address these weaknesses, and with its extensive network it will be in a position to fill some of the vacuum left behind by the BNDA and other development banks that no longer exist. Benefits will accrue to members and enterprises, and promote higher financial intermediation rates which will enhance financial sector stability.

2. **Support a regional pilot cooperative model that is focused on developing a successful, labor-intensive agricultural and agro-processing model oriented to domestic markets.**

a. Description

USAID should provide up to $2 million to design and implement a parallel, pilot agro-processing cooperative project in the same region as the CREP project to provide a non-financial enterprise development thrust to its program. This pilot would be professionally managed, organized as a private sector enterprise operating in a competitive market, and involve food production and diversified agro-processing activities. Its orientation would be small- to medium-scale, focusing on the domestic market where it would operate within prevailing resource constraints and seek to become a competitive model enterprise. This project would have no delusions about being export-oriented in the preliminary years, although this might ultimately become a long-term outcome if fundamental competitiveness by global standards were achieved. Links would be established with CREPS to provide financial management training and safekeeping services. The cooperative model would also seek to build on existing support from USAID to OIC to assist with training, as well as to forge relations with other NGOs, training institutes and private companies to develop appropriate technologies and skills for agro-processing and management. The project would be managed by an NGO with a demonstrated record of past success in Africa (e.g., Technoserve, ACDI), and emphasize a "bottom-up" approach to cooperative organization in contrast to the "top-down" approach more commonly practiced in Côte d'Ivoire.

b. Background

Côte d'Ivoire has a long history of cooperatives operating in food and cash crop activities. Typically, they appear to have been organized as part of a larger model to feed into state-run processing and marketing institutions. However, agricultural cooperatives are not strong because payments in the past depended on CAISTAB and other government agencies. With the failure of CAISTAB, BNDA and other institutions in recent years, the cooperatives are now fairly weak. As it is likely that the current economic crisis will continue through the coming years, it is an opportune time to attempt a new model that is more member-driven, professionally managed, and adapted to market liberalization requirements.

c. Current Activities

The cooperatives appear to have received some support from various donors, primarily in the form of larger sectoral production requirements (e.g., agriculture), or where other concerns have prompted restructuring and relocation (e.g., environmental, deforestation).

d. Problems

While cooperatives have succeeded in producing a wide range of food and other agricultural products over the years, they are not accustomed to operating in a free market environment in which production and distribution are not distorted by subsidies, monopoly controls, protectionist tariffs, etc. As market liberalization evolves in Côte d'Ivoire, cooperatives will be responsible for (1) obtaining market information, conducting market research and making the best marketing arrangements possible for their products, (2) making prudent resource management decisions involving their own hard-earned capital, such as equipment purchases, inventory management and cropping decisions, (3) keeping up with the latest information on inputs, yields, climate, soil suitability and other production-related variables, and (4) ensuring proper bookkeeping and accounting systems are in place. This will make them competitive and dynamic, yet it will take time before these cooperatives are accustomed to operating like private business enterprises in which members benefit from improved information and services, increased per-member purchasing power, and capital appreciation and dividends.

e. Solutions

Rather than attempt to re-create the national cooperative movement, it is recommended that a tried and tested model be introduced to compete with the traditionally vertically integrated, command approach. The orientation would be "grass-roots", member-driven, decentralized, democratic, managed as a profit-oriented private sector enterprise, and focused on capturing domestic market share. A U.S. NGO with a demonstrated record of success in Africa would serve as the implementing agent, with counterparts from a local NGO to assist with implementation and officials from the government cooperative service seconded to learn the benefits of this approach. The main tasks would be: (1) provide on-site management to successfully launch one or several cooperative enterprises; (2) stress the necessity of member share capital, in cash or kind, as a reflection of responsibility, commitment, accountability and active involvement of cooperative members; (3) emphasize intensive training in bookkeeping, accounting, financial analysis, marketing, production and processing, and cooperative organization to build a cadre for cooperative self-management within two years after production and processing start; (4) establish needed institutional links to public institutions and private companies for needed inputs, extension and technologies; and (5) focus on an enterprise orientation that is based on competitive market principles, and not perceived as a community obligation or social organization.

f. Benefits

A cooperative model that parallels the member-driven characteristics of the credit unions would be more responsive to members and the challenge of enterprise development. The model would evolve as a diversified agricultural and agro-processing enterprise that provides markets for local farmers, employment in agro-processing and related services, higher incomes for rural economic operators, and capital appreciation and dividends for cooperative members. Such an enterprise would be particularly suited for smaller-scale food crop producers that currently obtain low prices for output, engage in limited processing or other value-adding activities, and have limited financial resources to obtain improved seed varieties, herbicides, pesticides, implements and other goods which might increase yields, reduce maintenance costs, enhance profits, and provide greater food security. By focusing on agriculture, the project would stimulate private sector activity through a number of forward linkages (e.g., processing, storage, transport, trade). Institutionally, such cooperatives would serve as natural customers for other rural institutions such as CREP, as well as a vehicle for the delivery of health education (and services).

g. USAID Feasibility Criteria

As with CREP (recommendation #1), the geographically targeted approach to this intervention meets USAID feasibility criteria. In fact, while separate in their focus and requirements, both the rural finance and agricultural cooperative options could be grouped into one rural development project with mutually reinforcing components. Both are seen as potential complements to the other's success, as well as vehicles for enhanced performance in other USAID activities such as the provision of health and municipal services. The feasibility of the agricultural cooperative option is discussed below:

- Financial Resources: While a more thorough analysis would have to be conducted, it is expected that such a three-five year project would not exceed $2 million. This would include one long-term U.S. advisor, several Ivorian operating personnel (e.g., agro-processing operations, accountant/credit manager), and needed commodity support (e.g., one or two vehicles, one or two computers). It is believed that costs could be partly reduced by enlisting a counterpart Ivorian NGO, although this would have to be studied. Thus, $2 million may be a high figure.

- Management Resources: USAID does not have the management resources in place for an agricultural cooperative project. Thus, any assistance to cooperatives should involve an experienced NGO with a record of success in Africa and elsewhere, and with a decentralized, grass-roots focus.

- "Comparative Advantage": The U.S. has one of the strongest agricultural cooperative movements in the world, with revenues of the largest ones exceeding $1 billion. However, most of these cooperatives have a marketing focus, and are thus not appropriately suited to some of the more basic organizational, production and management problems facing Ivorian food crop producers. To play this role, several NGOs with wide geographic coverage (U.S. and international) and reasonable functional specialization (e.g., housing, agriculture, finance) have filled this gap. Often the focus is decentralized and oriented to institution-building. Skill levels are appropriate for Côte d'Ivoire.

- Complementarity: Because the MAPS team was unable to arrange an appointment with local cooperative authorities (despite repeated attempts), the amount of assistance provided to cooperatives could not be determined. However, it does not appear that any "grass-roots", bottom-up approaches are being tested. It is believed that this cooperative project could be designed in a manner that reinforces GOCI and donor efforts to strengthen cooperatives and the private sector.

- Monitoring and Evaluation: Project impact would be easy to monitor and evaluate. Key variables could include (1) membership increases and number of cooperatives formed, (2) specific production and processing measures, (3) financial measures by cooperative enterprise (e.g., revenues, profits, retained earnings and capital growth, inventories, fixed assets, long-term debt), (4) financial measures by average cooperative member (e.g., book value of shares, dividends paid out), and (5) jobs created (direct and indirect). Efforts could also be made to track the diversification of enterprises.

- Prospects for Success: Cooperatives are numerous in Côte d'Ivoire, but generally accustomed to a hierarchical, vertically integrated, top-down approach. Risks include the possibility that cooperative members would be unwilling to pool equity capital, and the amount of time it takes from the start-up of project implementation to actually producing, processing, and marketing in a meaningful way. However, past models have shown that once a successful enterprise is in place, replication is made easier. Thus, it will be necessary to not only identify the appropriate group, but to design the appropriate enterprise for success to be achieved. This will require a detailed feasibility study by the NGO to determine the production, processing, marketing, organizational and financial requirements for a successful enterprise.

3. Design an "Insurance Guarantee Fund" modeled on a standard Loan Guarantee Fund to increase underwriter and agency willingness to provide broader health care coverage to organized pools of health care consumers.

a. Description

It is proposed that USAID investigate the possibility of establishing an insurance guarantee fund (IGF) for an underwriter and participating brokers to help offset some of the risk of providing expanded coverage to a broader pool of health care consumers. The IGF would be modeled after standard loan guarantee funds (issued to banks), and structured to carefully measure risk and return so as to improve insurance company profitability, build reserves against losses, and provide greater confidence in the insurance industry so that health service consumers receive increased access to quality health services. This approach has not been tried in Côte d'Ivoire, and there are numerous weaknesses to address regarding statistical collection, cost containment, managerial efficiency, consumer education and awareness, and hospital and clinic participation. However, in concert with efforts to educate and broaden the pool of health *associations mutuelles*, it is believed that such an approach might play a role in expanding the volume of health coverage and improving the quality of that coverage. Given the weak state of public health in Côte d'Ivoire and the government's longstanding failure to provide needed health care in a sustainable, accountable, efficient and reliable manner, the MAPS team believes there are private sector solutions that can augment existing public sector (and USAID) capacity and activities. (The reader is encouraged to review MAPS Volume III: Private Sector Provision of Health Services, and Chapter IV of this document, where far greater detail on health issues is discussed.)

b. Background

There are about 10 insurance companies that serve as underwriters of health insurance plans, with only a small percentage of the population that receives coverage. In general, underwriters are losing money on their health plans, while using other more profitable insurance activities (e.g., auto, health, fire) to finance the operating costs and overall losses generated from health plans. As shown by the low percentage of coverage, few people have sufficient coverage to protect against serious illness. Insurance companies are open to providing coverage as long as the customer can pay. However, as premia tend to approximate per capita income figures, only a small percentage of the population has and can afford health insurance. In most cases, large-scale enterprises appear to be the best customers for health companies. (As described in MAPS Volume I: General Private Sector Assessment, this is a diminishing market.) SMEs are now being encouraged to have minimum groups of five with joint responsibilities, similar to solidarity associations, as past performance has been weak. Individual and family plans, as well as open, heterogeneous professional groups have also generally been poor performers. Thus, underwriters are in the difficult position of either providing health coverage as a loss leader, or scaling back their activity in the health care market to contain losses. In either case, such fundamentals do not bode well for the expansion of health insurance plans for a larger base of Ivorians.

c. Current Activities

There are currently no IGFs in Côte d'Ivoire. Various donors and NGOs are working in the health field in various capacities, but none has introduced a guarantee concept for underwriters. On the demand side, the African American Insurance Company (AFRAM) and some private company schemes are in the design or initial stages of providing coverage for *associations mutuelles*.

d. Problems

Some problems have already been mentioned. Key problems from the underwriting side include (1) the accuracy and timing of statistical measures to determine appropriate risk parameters, (2) limited marketing capabilities (e.g., pricing incentives, community outreach and education), (3) low pricing relative to usage (e.g., extended family usage for nuclear family coverage), yet high prices relative to per capita incomes, and (4) resistance from health care providers to reduce their costs. An IGF would have to take all of these weaknesses into consideration, including shoring up the operating efficiency of the underwriter itself. Administrative costs approximate 25%-30% of revenues. When combined with a 14.5% tax on revenues, a percentage paid in commissions and fees to brokers, and the high gross costs of care, it is clear that underwriters are losing money with their health plans, thereby reducing consumer choice and coverage. A very rough calculation of *Union Africaine's* (Côte d'Ivoire's largest underwriter, with about 25% market share) net loss in health insurance in 1992 is CFAF 560 million against CFAF 1.6 billion in revenues (see Annex II). If underwriters are going to lose at a 35% margin, there will be no incentive to provide coverage unless other insurance plans (e.g., life, auto) make up the difference. With underwriters' best clients (large enterprises) experiencing declines, a new approach needs to be developed. The purpose of the IGF would be to enhance underwriter management efficiency and provide risk coverage to induce them to expand coverage to greater numbers of organized health care consumers.

e. Solutions

An IGF would help offset some of the risk of loss associated with health plan underwriting. However, as with so many unsuccessful loan guarantee funds provided to banks, this guarantee could be simply used as a means of covering avoidable losses. First and foremost, conditions would have to be strictly applied to ensure the insurance company did not use the IGF as a first resort to recover losses. To protect against this development, specific plans would have to be developed based on careful and statistically valid market research and risk assessment. In addition, more creative approaches to service mix and pricing incentives would have to be developed to attract responsible participation. By applying such techniques to *associations mutuelles* which would also benefit from education and training, there is a very good chance that health coverage could be expanded cost effectively, thereby benefitting underwriters, service providers, and organized consumers.

f. Benefits

The IGF would provide the mechanism for improving underwriter risk assessment techniques which would then provide more options and coverage through the retail network of brokers and agencies. Internal improvements such as statistical collection and analysis would allow more refined products and marketing strategies. More accurate information would be expected to ensure reduction of losses, and eventual profitability. The last development would ultimately be expected to increase the attractiveness of such approaches, thereby increasing interest in and development of health plans. A more efficient insurance industry would make for a stronger client for health care providers, increasing their incentives to expand service delivery as well as to reduce costs. Ultimately, with proper education on responsibilities and plan features, the *associations mutuelles* would benefit from better access to health plans, pricing incentives for increased membership, and more cost effective provision of quality health services.

g. USAID Feasibility Criteria

This option meets some of the USAID criteria, but not all. This is discussed in more detail below, but primarily relates to its innovativeness in Africa, and the poor historical record of loan guarantee fund performance elsewhere.

- Financial Resources: USAID possesses the financial resources for such a project. In a loan guarantee fund, a leverage factor is ordinarily applied as the inverse to conservative measures against possible loan losses. For instance, if a financial institution was expected to provide $1,000, and historical research showed traditional losses at 5%, the institution might conservatively set aside 10% to protect against losses. There would be a 10:1 leverage ratio established between loans and loss reserves, or $100 set aside for losses. Since most guarantee funds cover a fraction of losses (e.g., 50%), the participating institutions would each set aside 50% of the $100, or $50 each. Working backwards from a series of targets, USAID might choose to set coverage of 10,000 people as a target with an average cost of CFAF 100,000 per person per year. This would approximate CFAF 1.0 billion. If losses are estimated at a high 35%, this would require a CFAF 350 million set-aside. Assuming 50% loss coverage via the IGF, this would approximate CFAF 175 million, or about $650,000 (about $65 per person). The project itself would have training and technical assistance features, and thus might require a higher figure. On the other hand, it would be expected that such training and assistance would also bring down the exceptionally high loss rate of 35%. Thus, it appears that USAID would possess the financial resources for an IGF.

- Management Resources: While USAID has a Health Unit, it has been clear from the outset that this unit has little interest in any additional recommendations or activities that might augment their public sector focus. As such, the MAPS team would highly recommend that the private sector component be managed independently by a private firm with needed expertise in finance, insurance, market research and statistics, and community outreach. It is also recommended that the USAID Health Unit and private firm be encouraged to share information with each other to increase each project's chances of success.

- "Comparative Advantage": There is no comparative advantage to be cited for USAID concerning this project in Africa. It is modeled on loan guarantee funds which have shown limited success. It is experimental. Nevertheless, it is also believed that such a fund can be properly managed by professionals. Such skills would require accounting and financial analysis capabilities, statistics and market research, insurance, and community organization. Where USAID does have an advantage is being able to utilize the services of private firms with such skills. Nevertheless, there is limited experience in this functional area which has not likely been tried in sub-Saharan Africa.

- Complementarity: The IGF, combined with training of *associations mutuelles*, would reinforce efforts by GOCI, USAID and other donors to increase access and improve the quality of health care delivery.

- Monitoring and Evaluation: Such an intervention would be reasonably easy to monitor and evaluate. A fiduciary bank would be appointed to report on any guarantee usage with supporting documentation as required. Internal measurements at the underwriter would include (1) statistical measures for market research, (2) numbers and types of health plans developed based on market opportunities (e.g., companies, *associations mutuelles*), (3) financial performance (e.g., incremental revenues, cost controls, overhead ratios, net margins), and (4) changes in the market and market share. Measurements applying to insured groups would include (1) membership, (2) per unit costs broken down by type of plan usage, and (3) replication of such groups in the community.

- Prospects for Success: Because this idea is experimental and involves a wide range of institutional players, there are no guarantees for success. Such a project is management-intensive, and depends on statistical and market information that may not be fully available or accurate. On the other hand, there is clear demand for organized health services. *Associations mutuelles* are beginning to form, and some businesses and insurance brokers have done research on methods to improve health insurance coverage. Further, it is clear that the GOCI is in no position to fully handle the health care load, and that private sector solutions need to be found to offset government's inability to meet and finance these needs. Finally, it is believed that the IGF would essentially provide some confidence during the development and start-up phases. Once implemented and refined, such plans would be easy to replicate through other underwriters and *associations mutuelles*. Thus, while success is far from certain, such an innovative approach may be constructive in facilitating the introduction of private health care options that expand coverage, reduce per unit prices, and ultimately improve quality.

4. **Support training activities in targeted areas (such as privatization and debt management) where there is a lack of GOCI capability/awareness to encourage political consensus for needed economic reform and liberalization. Training and enhanced information services should also be used as an incentive to spur the development of member-driven, democratic business associations as an alternative to the Chamber of Commerce which is widely viewed as a wasteful and unresponsive institution that does little to promote private sector development.**

Such a strategy would be inherently flexible, but would include privatization, debt management and general business management training for public and private sector operators (tied partly to Municipal and Health Services). These are briefly discussed below:

a. Privatization

Have U.S. firms play a more active role in training public officials on privatization options (as opposed to simple research and feasibility assessments). This could include cases on an industry basis of privatizations performed in other countries to expose differing techniques. This would necessarily include approaches to valuation, investor decision-making processes, employee stock ownership plans, negotiations, consolidation options and other relevant topics to encourage a more active, constructive approach from public officials. As the government has privatized only five companies, such training could provide public officials with more confidence and, therefore, a more aggressive approach to reduce the burden of these losing enterprises on public revenues. Often, privatization officials are civil servants skeptical about the private sector. To avoid stalemate and address this problem, some U.S. firms have developed training modules for Eastern Europe, Latin America and Africa to better inform privatization officials of new approaches and techniques. These could be easily accessed by USAID, and they would not be expensive.

b. Debt Management

The issue of debt service has been discussed as an impediment to restoring investor confidence in Côte d'Ivoire. Clearly, GOCI's inability and unwillingness to service its internal and external debts since 1987 represents a financial breakdown requiring massive restructuring. These efforts have begun, but are moving slowly. One of the problems public officials often have in state-controlled economies is the length of time required to regain confidence in the local economy. Unfortunately for Côte d'Ivoire, it has managed to undermine much of the goodwill it built over previous decades as an "open", "capitalist" economy because it is simply not honoring its debt commitments. There is clear understanding that the erosion in terms of trade for its chief export commodities adversely affected its debt servicing capabilities. There is also understanding that London Club bankers failed to properly assess risk, and should pay a price for such imprudent lending practices. Nevertheless, for Côte d'Ivoire to instill confidence in domestic and foreign investors as well as to improve relations with its current bankers (the donor community), it will need to service its debt. Once it begins to do so, it will be prudent to understand the various options that will be available in the marketplace to reduce this medium- to long-term burden without bankers having to write off the full amount of London Club debt. This will include debt swaps for equity (e.g., privatization prospects), nature (e.g., ecotourism, parks management, reforestation), development (e.g., health services, municipal services, educational institutes) and other purposes that will reduce public long-term debt and current expenditure, and encourage private investment and open markets. USAID could assist by providing specific training to public and private officials on methods of marketing and procuring debt as a commodity for business development purposes. As with privatization, it is recommended that training (not research and publications) be emphasized, and that the focus be on debt management activities in other countries where these practices have been successful. Such training capabilities could be easily and cost effectively accessed by USAID, with substantial prospects for positive impact.

c. General Management Training for Independent Private Sector Business Associations

This activity would address weaknesses found at the enterprise level, but should be organized as an incentive for serious, member-driven associations and not individual enterprises. This recommendation is prompted by the difficulty the MAPS team had in arranging a focus group with members of the Chamber of Commerce's SME unit. Rather than facilitating activities that are potentially beneficial to their members, it appears that some of the traditional associations are miniature empires designed to prevent members from benefitting from available options. As such, USAID is encouraged to make training available to associations that are more democratic and member-driven in their management, financing and operations. Management training would address bookkeeping, accounting, finance, production, processing, transport, marketing and other key budgeting, planning and operating skills. Such training could be structured as follows: (1) technical skill levels in various manufacturing and service sector activities; (2) basic business management requirements at commercial training institutes; and (3) more specialized, professionalized types of formal sector business management training at the university. Training could also involve private sector training for public sector officials to encourage a new generation of civil servants who recognize the importance of a friendly business operating environment to stimulate investment and, ultimately, a more stable tax base. Programs could be established on models of U.S. MBA programs, perhaps in concert with a U.S. MBA program to serve as advisor on training and materials. (Some universities have established "management" courses and programs even though the responsible departments organizing the programs are not engaged in business studies or curriculum development. In fact, many of these academicians are sociologists or political scientists whose focus is clearly not the most appropriate for such needed technical training. It is highly recommended that an MBA program be used as advisor as opposed to international relations and other departments lacking in business management skills and expertise.)

d. Information Dissemination to Increase the Volume and Accuracy of Industrial and Commercial Information

Enterprises in Côte d'Ivoire feel a need for greater market information and training opportunities. As the Chamber of Commerce and other associations are generally viewed as government institutions performing little useful function for private sector enterprises, enhancing information flows could also be used by USAID as an incentive for institution-building efforts. This could be done by contributing to efforts to develop a business research center and business association newspapers. This is an option that could be more appropriately pursued in conjunction with Human Resource Development and Democracy and Governance initiatives, rather than as a purely private sector intervention. Once again, an MBA program working together with other institutions (e.g., media development) to promote business information dissemination might make this effective as an intervention.

III. MUNICIPAL SERVICES STRATEGY RECOMMENDATIONS

A. INTRODUCTION

Côte d'Ivoire is divided into 194 *communes*. All residents live in a *commune*, which typically consists of a cluster of villages or towns around a larger commercial or market town. The *commune* is governed by a locally elected mayor and city council who direct the work of a professional civil service. Popular elections for local officials is a recent development in Ivorian political history.

One of the Ivorian government's goals is decentralization of its administration to improve the quality and timing of government responsiveness to citizen needs. The urbanized populations of Côte d'Ivoire have had a difficult time with the transition to local autonomy. This is due to urban growth rates in excess of the capacity of *communes* to provide for commensurate levels of increased service provision. While there is usually an area within each municipality with higher income residents who receive municipal services, the newer areas characterized by higher population densities and lower incomes do not receive needed services.

The government's response to the evident lack of uniform service provision within municipalities includes the following: (1) the transfer of most responsibility for service provision from central to local government units; (2) replacement of public sector institutions with private sector providers as primary suppliers of municipal goods and services; (3) reduction of subsidies for public sector service provision; and (4) donor assistance.

B. BACKGROUND

Until 1980, there were only eight *communes*, or autonomous, city-level governments in all Côte d'Ivoire. The Municipal Law of 1979 created an additional 29 *communes*. In 1985, the government planned to create additional *communes* in cities with populations of 10,000 or more, but the ruling party's national congress forced the threshold lower. With this reduction, towns with as few as 2,000 residents could legally be constituted as a *commune*, and thus offer additional opportunities for elective office. As of the 1988 census, the smallest *commune* in Côte d'Ivoire was Guinteguela, with a population of 4,635. Based on revenue-generation opportunities, there is reason to doubt the economic viability of the 56 *communes* of less than 10,000 population when left to their own financial resources.

Abidjan is Côte d'Ivoire's only city with a population exceeding 1 million. Other towns with a population of more than 250,000 include Bouaké, Daloa, and Divo. There are only 30 *communes* with a population of more than 100,000. While some decision-making and administrative powers have been transferred from central to local levels, and popular participation has been encouraged through elections and formation of interest groups, the *communes*' capacity to generate operating revenues through tax collection remains less than what is needed to provide necessary levels of service. Still to be accomplished is the empowerment of these lower level governments by granting them control over locally generated revenues which now flow to and are disbursed by the central treasury.

Communes largely accept and have responsibility for the services essential to their welfare. However, they lack governing authority and financial resources to provide these services efficiently (or at all). Communal autonomy is potentially available, but remains subject to national ministry control over municipal treasuries. Central government control over local tax revenues gives them, rather than the municipalities, the power to allocate local resources as they wish rather than in response to municipal needs articulated at the local level.

One solution to this impasse is to eliminate the requirement that locally-generated revenues be deposited in the central treasury. If those revenues were held in a bank account controlled at the local level, then municipalities would have the incentive to collect more of the revenue now due them. This would then provide municipalities with both the responsibility and authority to contract or provide municipal services essential to the welfare of their residents.

C. IMPACT ON PRIVATE SECTOR DEVELOPMENT

Ivorian policy calls for the transfer of service provision from the public to the private sector. Côte d'Ivoire's formal and informal private sectors are sufficiently developed to be able to provide municipal services if they are paid for their work. Indeed, there is and has been some private sector provision of municipal services, as reviewed in MAPS Volume II: Private Sector Provision of Municipal Services and MAPS Volume IV: Summary of Meetings and Focus Groups.

Because of Côte d'Ivoire's long history of centralization and limited local participation in decision-making, the necessary element now lacking is the autonomy of municipalities in the contracting process. The contracting process includes revenue mobilization, budget planning, project design, project initiation, project evaluation, and payment for contracted services.

The following recommendations are intended to further the goal of a public-private partnership for the provision of municipal services in Côte d'Ivoire so that municipal residents will enjoy improved public hygiene, private sector economic development, and more responsive local government.

D. GENERAL MUNICIPAL SERVICES STRATEGY RECOMMENDATIONS

1. Support efforts to increase municipal financial autonomy.

a. Description

Locally generated revenues should be retained and controlled at the local level, preferably in a commercial bank account in a branch located in or as close as possible to the municipality. Banks should be required to compete publicly for these deposits. There should be monthly publication in and commentary by an independent news organ of deposits and disbursements. The participation of municipal residents in this process can only enhance Côte d'Ivoire's prospects for democracy and improved governance, a stated GOCI goal.

b. Background

While municipalities are empowered to contract for services, they have no control over the pace and amount of payment. As these decisions are made by the central treasury without regard to contract provisions, the private sector does not regard municipalities as reliable partners. As a result, municipalities do not attract competitive and serious offers from the private sector.

Municipalities not only lack direct access to and control over their revenues, but they have limited budgetary and planning control over the investment and maintenance expenditure required for capital projects. When they use central government service providers for capital improvements, municipalities lose control over the timing, magnitude and cost of these projects. Capital projects are ordinarily completed by a central government entity (usually the *Direction Centrale des Grands Travaux, DCGTx*), and the ultimate cost is charged by the Ministry of Finance to the contracting municipality's budget. In this manner, the municipality loses control over the cost of its capital and maintenance requirements, consequently depriving it of planning and budgeting responsibilities.

The issue here is responsible management and allocation of modest municipal resources for needed infrastructure and maintenance. Neglect of maintenance spending, and required replacement of infrastructure through new investment, imposes a budgetary burden on municipalities which they are unlikely to be able to sustain.

c. Current Activities

The World Bank has a Municipal Development Project (MDP) funded at $66 million, of which only $5.8 million has been disbursed. This project focuses on 18 secondary municipalities, and has as its local counterpart coordinator the *DCGTx*. Elements of the World Bank Municipal Development Project include: (1) training for municipal staffs in collaboration with the United Nations Development Program and International Labor Organization (via Ministry of the Interior); (2) mobilization of municipal financial resources via reform of the real estate tax and municipal retention of 50% of locally generated revenues at the local level (political support apparently exists in the Ministry of the Interior, but is also required from the Ministry of Finance); (3) the financing of municipal infrastructure investments by the Lending Funds to Municipalities project (FPCL) via the *Caisse Autonome d'Amortissement* (CAA); and (4) funding a national demographic census and studies, leading to future urban/rural projects via the Ministry of Planning. The fourth element has received support from the U.S. Bureau of Census and USAID since 1983, a necessary condition to enable municipal officials to determine their tax base and market demand for services.

USAID has also reinforced the World Bank's MDP by engaging in a pilot program to train municipal officials in five selected municipalities: Sinfra (population 140,000), Duekoué (115,000), Tiassalé (115,000), Akoupé (75,000), and Biankouma (75,000). The project seeks to train local officials to determine the extent of their potential local tax base, to recover a higher share of revenues due to them, and to allocate revenues for local needs. USAID also co-sponsored a regional conference on municipal credit in Abidjan in November 1992, which focused attention on the issue and developed steps which municipalities could take to improve their ability to borrow in the open market.

d. Problems

There are five major hurdles associated with limited municipal financial, budgeting, planning and contracting autonomy. These consist of financial, economic and political concerns, and are summarized below:

(1) Central government finances: The central government has had continuous budget deficits, reflecting high revenue requirements relative to its tax base. The civil service has not been downsized, but service provision has declined. The central treasury continues to retain municipal funds that should be held at local levels for service provision. One measure of the government's financial problems is its neglect of debt service on bonds issued on the Abidjan exchange. Another is its six-year history of non-payment of principal and interest on international debt. Until this cycle is broken, municipal services will continue to diminish despite urban growth rates averaging 4.7%.

(2) Municipal financial viability: A number of municipalities ranked as *communes* are too small in population and lacking in economic activity to be in a position to generate sufficient revenues to pay for potable water, electricity, lighting, solid waste collection, road surfacing, draining, maintenance and other desired municipal services.

(3) Domestic politics: Municipal councils and mayors will have to vote to deposit locally generated revenues in commercial bank accounts controlled by the municipalities and subject to central government audit. A majority of municipal councils were elected from the ruling party. A majority of elected mayors do not reside in, earn their living from, or devote themselves fully to their role as mayor. It is not clear that these municipal officials will accept the political risk implicit in acting contrary to ruling party interests.

(4) Tradition and perception: There has been a history of misallocation of municipal funds by government officials, both political appointees and career civil servants. Some may be loathe to change the *status quo*. Others may not wish to be put in a position where they are publicly assumed to be misallocating public funds directly under their control.

(5) Democracy and governance: The electorate's sense of and belief in the power of its vote and oversight role has not been developed and tested. There is no independent news or political opinion organ in Côte d'Ivoire. Therefore, public officials cannot assume public support for actions beneficial to the local municipality.

e. Solutions

In response to these five key problems, the following solutions are proposed:

(1) Encourage the right of municipalities to maintain locally controlled commercial bank accounts for locally generated tax revenues, user fees and other sources of income. Demonstrate to Ministry of Finance and Interior officials that demands on the national treasury can be reduced by channeling a greater proportion of municipal spending into maintenance rather than capital investment projects, thus extending the life span of projects already in place.

(2) Provide professional training to municipal officials. This includes methods to determine the present tax base, improve revenue collection, produce departmental budgets to improve the balance between maintenance and capital investment, publish budgets and expenditures, and communicate with the public to explain these developments to tax payers.

(3) Involve private organizations with neighborhood, religious, professional or recreational bonds in the municipal political process to help them understand their potential role as watchdogs and pressure groups vis-a-vis their municipal governments.

(4) Re-establish demographic parameters for local self-government and financial autonomy. *Communes* with populations of less than 100,000 do not appear to have the critical mass needed to generate sufficient revenues for desired services. A *commune* of 100,000 has a core urban and commercial zone population of about 50,000, or 5,000 nominal ten-person households. The remaining 50,000 live in low density, rural or village areas of limited commercial activity. The role of the public market in revenue generation is key to many *communes'* financial well-being. Without cooperative groups of smaller *communes* within the boundaries of a *préfecture*, there does not appear to be opportunity for insufficiently populated municipalities to generate local revenues beyond the real capacity of their resident populations. Service provision in some *communes* may require mobilization of unpaid, volunteer activities.

f. Benefits

Greater control over municipal tax revenues would give municipal governments needed leverage to determine and implement local priorities, a necessary condition to their becoming realistic contracting partners for potential private sector service providers. Private sector service providers could gain new sources of revenues, employ a greater number of people, increase the tax base, and ultimately increase public benefit in the form of improved public hygiene and infrastructure resulting from well-planned and executed service contracts. The political process at the local level would move closer to increased levels of multi-party participation, encouraging more responsive local governments. In all cases, benefits would be found financially, economically and politically.

g. USAID Feasibility Criteria

Supporting greater municipal financial autonomy is a targeted policy reform. In this sense, such a recommendation could be presented as a condition for assistance. It would be feasible according to USAID criteria, as described below:

- Financial Resources: This recommendation focuses on the enabling environment. Therefore, the cost to USAID would be felt more in staff time than in financial expenditures. Without a specific design, the cost of training programs cannot be measured. The present pilot program with five municipalities could develop the outcomes envisioned here. If successful in the five pilot municipalities, others might be encouraged to either adopt the procedures learned elsewhere, or to request direct assistance.

- Management Resources: No significant increase in human resource levels would be necessary in the short term.

- "Comparative Advantage": USAID has expertise and experience in municipal development programs worldwide. Moreover, the U.S. political structure is relevant because local governments have autonomy far in excess of the centralized system on which Côte d'Ivoire's model is based. Such municipal governments could provide case studies and opportunities for counseling at all revenue and population levels.

- Complementarity: The GOCI has already made a public commitment to decentralization, which has received the support of most donors. Assisting municipalities to manage their own resources and contract with private vendors where advantageous can only increase the efficiencies of those donor programs aimed at capital investment and maintenance.

- Monitoring and Evaluation: Monitoring and evaluation criteria are explicit: the number of municipally controlled bank accounts, levels of cash deposits, analysis of revenue recovery, and budgets that are better balanced between maintenance and investment.

- Prospects for Success: The government is already moving in the direction of municipal autonomy, and various donors have recently urged the government to allow local control over at least a portion of locally generated revenues. The counter-balancing negative is the government's unlimited demand for cash, especially if it is to consider servicing some of its debt. However, greater autonomy and responsibility will reduce central government obligations over time, permitting it to meet its role while local governments become more accountable and responsive at municipal levels. In the short term, this will represent a significant challenge to governing institutions and the public. However, in the long term, such developments will encourage stronger institutions and a more efficient public-private partnership that will enhance the capacity to provide needed municipal services.

2. Provide technical training to municipal officials to facilitate development of an effective and responsible Technical Projects Office at the municipal level. Such capacity would be predicated on planning, budgeting, design and negotiating expertise to ensure efficient delivery of municipal services within existing financial resource constraints.

a. Description

USAID could provide municipal officials with technical training in planning, budgeting, project design, management and communications for improved municipal management. Basic business training would enable them to understand their private vendors' essential requirements to do business (e.g., contractor's solvency and credit rating, history of payment) that would ultimately make service delivery more efficient. Training in technical project design and cost proposals would enable them to evaluate short-term and long-term budgetary impact. Such enhanced understanding could lead to the creation of an independent Technical Project Office located within and under the control of the association of municipalities.

b. Background

Ivorian municipalities lack experience in successful private contracting, largely due to the country's tradition of centralization in municipal affairs. Autonomy is a recent development for Ivorian municipalities. To succeed in this new environment requires training and expertise municipalities may not now have.

While Ivorian central government bodies are usually responsible for capital investment projects, municipal officials are responsible for the maintenance of that investment. There are sufficient examples around the world of the ultimate cost of neglected maintenance and its negative impact on economic growth. The maintenance of a bridge for ten years costs much less than the complete replacement of the same bridge every ten years. Programmed maintenance of a water system returns greater efficiencies than putting additional water resources on line to make up for leaks. Maintenance of roadways costs less than periodic replacement of the same system. Municipal officials can deliver greater amounts of service and infrastructure more efficiently by increasing the amount of maintenance spending relative to the full budget. Additionally, increasing maintenance spending will ultimately reduce demands on the central government for capital investment. A component of this point is that private sector service contracts for maintenance are likely to have a lower budgetary impact than acquisition of the capital equipment and human resources necessary to perform the same services in-house.

The opportunity for, and level of interest of, private sector firms to provide services to municipalities (especially maintenance) is directly related to the ability of municipalities to honor commitments to service providers. To enter into an effective agreement, municipal officials must understand what resources they have available for all operations and what is the most efficient balance between maintenance and capital investment. Municipal officials must also have a firm grasp of the cost components of projects they propose to be able to negotiate responsibly with private vendors and evaluate public bids.

These training components can enable municipal officials to allocate available financial and human resources more efficiently to better serve municipal residents. Part of this involves their ability to accurately cost their own proposals and receive expert opinion independent of the DCGTx. This suggests that the municipalities hire, pay and supervise their own independent Technical Project Office, staffed by professional engineers accountable only to the municipalities.

c. Current Activities

There have been some pilot activities in this area, although little has been accomplished. USAID's Local Level Solid Waste Project, and especially its training component, are a direct fit with this recommendation.

d. Problems

There are numerous municipalities in Côte d'Ivoire, with varying levels of experience, staff size and commitment. Providing such training universally is likely to be beyond the capacity of any one organization. Municipalities whose elected officials are members of the ruling party may be less willing to assert local autonomy than those who are members of other parties. Securing firm commitments will depend on the political will of the elected mayor and municipal council. DCGTx is likely to resist losing any of its market for capital investment projects.

e. Solutions

USAID can work through the *Union des Villes et Communes de Côte d'Ivoire, or UVICOCI* (association of municipalities), in a "train-the-trainer" program. This would increase the number of trainers available, and strengthen the association of municipalities by enhancing its ability to offer valuable member services. The strengthened association, with sufficient political backing of key municipalities, could then proceed to create its own independent Technical Project Office.

f. Benefits

The immediate benefit would be increased local autonomy over budgets and spending. This would result from locally controlled funding, and a suitable balance between maintenance and capital investment spending. A second benefit would be that municipalities would become realistic contract partners for private service providers by acquiring the power to contract and pay. Municipal residents would then have tangible evidence of municipal resource collection, disbursement and stewardship. Municipal governments would become answerable to municipal residents, thus strengthening local self-government and public participation in the political process.

g. USAID Feasibility Criteria

Such an intervention is ostensibly a training/human resource development project. As it would be an extension of existing activities, albeit focused on association development and improved management and planning practices, it would conform to USAID feasibility criteria.

- Financial Resources: USAID financial commitments would be small (e.g., $500,000 per year), but would require a long-term commitment. Provision of technical assistance, preferably including officials of U.S. municipal governments, would be funded from this project.

- Management Resources: The managerial load of this recommendation is confined to managing a training program, and allocation of resources to high-level discussions with municipal officials and councils. As such, USAID possesses the management and human resources required.

- "Comparative Advantage": USAID has worldwide experience with urban development and finance issues, has operated similar programs elsewhere, and can call on a wide range of expertise to support such a project in Côte d'Ivoire.

- Complementarity: This institutional strengthening complements activities of the GOCI, other donors (e.g., World Bank, EEC), and USAID. Training municipal officials to better maintain infrastructure and provide core municipal services also complements capital construction and public health activities.

- Monitoring and Evaluation Criteria: Monitoring and evaluation criteria include the number of municipally-controlled accounts opened, the degree of transparency in the management of funds, and improvement in the public-private partnership as measured in increased service delivery and participation of private vendors. These are easily quantified, although issues of transparency, improved service and opportunity costs should also be subject to qualitative evaluation.

- Prospects for Success: Given the prior administrative training of Ivorian municipal officials, and the level of interest in some municipalities to succeed, this recommendation should succeed and provide benefit. The prior recommendation of municipal fiscal autonomy would enhance the prospects for success.

3. In concert with public sector training (#2), USAID should assist with private sector training and certification to professionalize municipal service delivery capacity.

a. <u>Description</u>

A training and certification program to increase potential private vendors' knowledge of the municipal contracting process would improve their access to adequate human resources in secondary municipalities in the interior, and enhance their ability to compete with municipal Technical Service Departments.

b. <u>Background</u>

The history of private sector service provision has included two classes of contractors: (1) companies engaged by the central government in large-scale infrastructure projects; and (2) private firms who have inadequately performed service and maintenance contracts at the municipal level. The result of this experience is the small contractor perception that a municipal contract is not to be taken seriously. Municipal residents and taxpayers do not perceive much benefit relative to taxes paid, undermining their willingness to pay for services.

In addition to municipal autonomy over projects and payments, the ability of private service providers to honor contract terms is required for the successful delivery of these services. Except for the major and largely foreign construction and public works contractors, the typical firm working in Côte d'Ivoire is undercapitalized and inexperienced. Moreover, the certified and skilled labor they may require tends to be located in and around Abidjan. Private firms would be in a better position to make realistic and competitive bids if they understood the municipality's project requirements and had access to local human resources sufficiently trained and certified to provide on-site management and supervision.

c. <u>Current Activities</u>

Other than UNDP small- and medium-sized enterprise training projects, no other technical/engineering training programs are known.

d. <u>Problems</u>

While most qualified contractors are located in and around Abidjan, all municipalities potentially need the services of contractors. The secondary municipalities rely on DCGTx largely because they have no other options, and partly from habit. Thus, there are inherent difficulties in developing a large, competitive pool of service vendors in the smaller and financially less appealing municipal markets.

Technical training and certification is expensive and time-consuming. Technical certification is already the responsibility of GOCI agencies. Unless there is a demonstrable payoff from investing in upgrading and certification, private enterprises with limited resources would not likely commit time and money to the effort.

e. Solutions

Market forces would draw private contractors to secondary municipalities if they offered sufficient incentives (e.g., timely payment, honest negotiation). USAID and other donors could make agreements with GOCI technical certifying agencies to increase their reach and coverage. More specifically, USAID could work with selected municipalities to produce success stories, such as the five municipalities in which it is currently engaged.

f. Benefits

Municipalities would have a larger and perhaps more competitive pool of qualified private vendors from which to select for service provision. Private service providers would improve their ability to compete successfully for contracts. Municipal residents would benefit from increased coverage of services. Elected officials and career civil servants would benefit from the perception that local government is responsive to public needs.

g. USAID Feasibility Criteria

This recommendation conforms to USAID feasibility criteria, and would enhance prospects for success of the other recommendations.

- Financial Resources: While the Ivorian private sector is better developed than those of other regional countries (e.g., Guinea, Togo), its role in the largely government-dominated Ivorian economy is not as strong as might be wished. The cost to increase private sector technical capacity is an endless process and one which the private sector should bear. USAID could charge a fee for certification upgrade courses and for "doing business with the municipalities" workshops. Present REDSO technical staff may be in a position to develop workshop programs in conjunction with Ivorian private sector actors.

- Management Resources: This project would require a refocus of present managerial resources rather than major staff additions. The key demand appears to be the level of effort to monitor progress among Côte d'Ivoire's municipalities.

- "Comparative Advantage": USAID has worldwide experience in municipal development and has access to adequate resources, both in-house and from a wide range of contractors, including U.S. municipalities with direct experience in public-private sector partnerships for the provision of municipal services.

- Complementarity: The enabling environment for municipal service provision is a major USAID focus, as well as a stated priority for GOCI and other donors. However, apart from USAID and UNDP, there has been limited activity in this domain to date.

- Monitoring and Evaluation Criteria: Monitoring criteria include numbers of private firms enrolled and succeeding in workshop and training criteria, and numbers of private enterprises and municipalities attempting and succeeding to create formal contracts.

- Prospects for Success: Prospects for success in terms of increased numbers and total value of private service contracts depends on funding levels, municipal management capacity and political will. An alternative question might be to ask how private sector municipal service delivery might be achieved without such training and certification.

4. For the long term (e.g., in five years or so), support the development of independent municipal funding capacity by establishing targets of municipal creditworthiness. This approach would be modeled on municipal bond markets, with municipal finance and economic development targets designed as if an active market existed for Ivorian municipal bonds.

a. Description

The development of municipal creditworthiness, which this recommendation addresses, is clearly a long-term goal and not something that could be developed quickly. It may be understood as the outcome of the previous recommendations (#1-3). The general idea would be to assist creditworthy municipalities to gain access to the public credit market through the launching of municipal bonds. To qualify, municipalities would have to demonstrate a five-year history of adequate debt service and contract performance. To achieve this, a fund would be established to buy "Municipal Certificates of Trust" (CT), a form of privately placed municipal obligation. CTs would be purchased only from those municipalities which demonstrate the classic fundamentals of creditworthiness: (1) control over revenues and expenses; (2) properly structured budgets; (3) a history of successful debt service; and (4) acceptable Debt-to-Current Revenues ratios.

b. Background

The 4.7% urban growth rate in Côte d'Ivoire is running slightly ahead of the aggregate 3.8% population growth rate. The inflow of rural (and neighboring West African) populations is contingent on the relative economic opportunities, and may reverse in periods when urban areas cease to offer monetized employment. Nonetheless, urban areas face heavy demand for infrastructure and services they often cannot provide. While autonomy over locally generated revenues is a first step to gaining control over municipal affairs, an additional step - once a credit history is established - is to access the public lending market through the issuance of municipal obligations.

c. Present debt market

The Ivorian bond market hardly functions, and has been hurt by the non-performance of CAA and other GOCI agency bonds. Were there any liquidity for domestically issued GOCI agency bonds, one international bank manager believes he would be able to supply all the market could bear at a 50% discount. GOCI has not serviced its (commercial) London Club debt in six years. Moreover, Ivorians can invest their "surplus capital" with little difficulty in equity and debt instruments (typically SICAVs, a type of mutual fund) on the Luxembourg, French and Belgian markets.

The potential of the Ivorian and regional CFAF securities market will be tested when the West African Development Bank, WADB, launches its first regional bond in March 1993. In September 1992, the WADB administrative council decided to sell tax-free, ten-year 10% bonds totaling CFAF 4 billion in the seven countries of the West African Monetary Union (WAMU)[4]. This sale will be a first in the history of this currency sub-region. The issue will be launched in March 1993, with an initial period of subscription not to exceed one month. As the first non-GOCI agency bonds, the market interest for this issue will contribute to our understanding of the potential of the Ivorian domestic securities market. (Annex III provides a brief description of the WADB bond offering.)

Were some municipal debt issues eventually to be accepted by a more organized regional securities market on some basis similar to the WADB issue (such as tax advantages for institutional investors), and rated by classic credit criteria, the municipalities could start to issue general revenue or special purpose bonds to embark on a measured program of capital investment. However, before that stage is reached, municipalities will have to demonstrate their creditworthiness. The Certificates of Trust are intended to assist them.

d. Certificates of Trust

The Certificate of Trust would be a contractual obligation between the Municipality and a Private Placement Fund. The Private Placement Fund would be an agency created and (partially) funded by USAID. The contract, or Certificate, would specify all terms of the obligation on the municipality: the period of the CT, interest rate, payment frequency, external audit, etc. USAID and other interested parties would capitalize the Private Placement Fund and specify to its managers their expected performance criteria. These would include public ratings of the creditworthiness of the various municipalities, levels of the Fund's exposure to any one debtor, and minimally acceptable rates of return on capital.

The CT program would seek to educate municipalities as to what they must do in order to attract the funds they need from lenders. A secondary goal would be to "prime" a future

[4] Benin, Burkina-Faso, Côte d'Ivoire, Mali, Niger, Senegal and Togo

municipal bond market, perhaps a regional market. The operational goal would be to assist municipalities to provide (on a responsible basis) the core municipal infrastructure and services now lacking.

e. Current Activities

In 1990, the *Fonds de Prets aux Collectivités Locales (FPCL)* was created. While the World Bank funded its share, the FPCL apparently has not yet operated due to the absence of local counterpart funds required. The FPCL is to be based on the *Caisse Autonome d'Amortissement (CAA)*, despite CAA being the subject of many complaints by elected mayors and CAA bond holders who have not been paid. In addition, there is the *Fonds d'Investissement et d'Amenagement Urbain (FIAU)*, intended to give the poorest *communes* access to equipment for which they cannot pay. This is associated with the *Union des Villes et Communes de Cote d'Ivoire (UVICOCI)*.

f. Problems

This recommendation depends on the establishment of municipal autonomy over locally-generated revenues. Secondly, it depends on the success of municipalities to contract and pay private vendors, and to establish a five-year track record of debt service spanning several elections. Finally, the idea is new. Such an approach may be widely accepted, but its success will depend on increased training and significantly more developed financial sector infrastructure (e.g., information systems) and personnel (e.g., financial analysts) than currently exist in Côte d'Ivoire.

g. Solutions

The first three recommendations concerning financial autonomy and human resource training and development address the solutions. Additionally, it may be useful to provide selected public officials with first-hand experience of model U.S. municipalities which have or are now addressing comparable issues.

h. Benefits

The primary benefit of this recommendation would be the mobilization of local capital for local investment. The secondary benefit would be its implicit requirement on municipalities to operate in a responsible manner and be responsive to residents and bondholders. This would force a level of discipline and practical focus on public financial management and service delivery that has not been sufficiently evident in the past.

i. USAID Feasibility Criteria

- Financial Resources: The ability of Côte d'Ivoire's 194 municipalities to absorb spending is infinite: all municipalities have very real and urgent requirements for capital investment and maintenance. A US$ 10 million fund could potentially provide CFAF 50 million in one-year financing to nearly half of Côte d'Ivoire's existing municipalities within 10 years if debt service was 100% at 10% net interest rates and the operating costs were absorbed by a cooperative municipal financing authority[5].

- Management Resources: The management of a US$ 10 million bond fund is specialized. The fund would have to generate sufficient fees to pay this management, probably a private municipal bond management company, commercial bank or diversified finance company with demonstrable success rates in a similar project. Some of the management burden and transactions costs would be transferred to the borrowers, in that they would have to come to the CT fund with certified evidence of criteria compliance in hand.

- "Comparative Advantage": Over the past five years, USAID has gained experience in various financial interventions and funds. The African Enterprise Fund, and various local funds created out of PL-480 funds, are two examples. In addition, U.S. experience in municipal finance and autonomy lends itself to appropriate fund design and management.

- Complementarity: This recommendation follows on and complements such financial interventions as the USAID PSDC, and the World Bank's present efforts to establish municipal budgetary autonomy.

- Monitoring and Evaluation: Monitoring criteria are completely objective: amounts at risk, number of current accounts, degree of compliance, and total amount of repayments and interest received for roll-over into additional CTs.

- Prospects for Success: As stated earlier, this recommendation is proposed as a second stage to the first recommendations enumerated in #1-3. CTs should be viewed as a logical incentive to facilitate the necessary development of municipal management capabilities. Critical is whether the prospect of creating a positive credit history and rating is sufficiently attractive that some municipalities would submit themselves to the financial rigor required. In part, the prospects for success of this recommendation depend on the municipalities' degree of financial autonomy, and their officials' ability to manage the resources available to them.

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[5] Initial funding of US$ 10 million would produce CFAF 2.7 billion in operating capital. Projecting a ten-year fund, annual loans or Certificates of Trust would equal CFAF 270 million. Issued in CFAF 50 million units, the fund could initially service five-six municipalities. If the net interest margin were set at 10% and fully reinvested into the Fund, the Fund value would be at CFAF 700 million for year 10. This would provide CFAF 50 million units to 14 municipalities, and a cumulative total of nearly 95 one-year units to municipalities over the 10-year period.

IV. HEALTH SERVICES STRATEGY RECOMMENDATIONS

1. Support the development of non-profit health insurance plans to increase the purchasing power of health care consumers, and introduce managed care mechanisms--such as establishment of a health maintenance organization--to control the cost of care.

a. Description

USAID would provide both technical and financial support to mutual associations (*mutuelles de risque*) for health insurance linked to managed health care. Several options for intervention are possible, differing mostly in the extent to which USAID supports pilot mechanisms for managed care. First, USAID could support nascent mutual associations which are currently entering into contracts with independent clinics for bulk provision of health services. The extent to which care can be managed, and costs controlled, depends on negotiated agreements between the insurer (the mutual association)--who bears the financial risk--and the service provider (the clinics). This option would be least costly for USAID, but would also do less to control the costs of care than other options. Second, USAID could help transform an existing private hospital (*Hôpital Protestant de Dabou*) and its surrounding primary care facilities into a Health Zone structured as a health maintenance organization (HMO). The defining characteristic of an HMO is that the financial risk of insuring is borne by the service provider, maximizing incentives to control the cost of care. Under this option, the hospital would develop an insurance plan, and enhance its existing policies for cost containment (e.g., strengthen the referral system, standardize treatment algorithms, promote preventive care). The major advantage of this option is its reliance on a well-established and well-respected facility with a longstanding policy of cost recovery through user fees, and a strong commitment to controlling costs. Third, USAID could help create a staff model or group practice HMO, drawing on the pool of young physicians seeking employment in the private sector. This option would again maximize the incentives for controlling the cost of care, but would face all the risks inherent in starting up a business. It would have the most direct impact on employment of young physicians, but would also be the most costly and risky option for USAID, which would have to provide grants or loans as start-up and working capital for the HMO--or at least loan guarantees from the commercial banking system for this purpose.

b. Background

Budgetary constraints and insufficient reliance on user fees have deprived public sector health services of the drugs, equipment and medical supplies needed for high-quality care, and have limited the size of the population which can be reached by the public sector. At the same time, private sector care by qualified physicians has been priced beyond the reach of all but the upper echelons of society. Declining consumer purchasing power, a result of the prolonged economic crisis in the Franc Zone, is seen as the major constraint to private sector health services at all levels of society. Health insurance, which is a mechanism to increase the purchasing power of health care consumers, has also been affordable only to the well-off and/or those who work for large, formal sector employers. Despite its high price, health insurance has not been a profitable undertaking in Côte d'Ivoire--it is fraught with abuse, and suffers from an almost complete lack of cost control mechanisms. (For a more complete discussion of constraints to private sector health services and health insurance, see <u>MAPS Volume III: Private Sector Provision of Health Services</u>.) For these reasons, the Government is looking for ways to ease the burden on public health facilities by shifting demand into the private sector. Simultaneously, private health professionals are looking for ways to increase the purchasing power of health care consumers, and the insurance industry is looking for ways to control the costs of private care. Non-profit mutual associations for health insurance linked to managed care would achieve these different objectives by increasing the purchasing power of those who need care, and providing incentives for rational consumption and provision of health services.

c. <u>Current Activities</u>

A number of non-profit mutual associations for health insurance have sprung up in the private sector in response to the need for more affordable private sector care. Two of these, the *Mutuelle du Centre (MC)* and the *Mutuelle d'Assistance Familiale (MAF)*, were described in Volumes III and IV. Both are in a start-up phase, and have negotiated substantially reduced rates for subscribers at participating private clinics. Premiums are also a fraction of those charged by commercial insurance companies, although it remains to be seen whether these premiums will be adequate to provide comprehensive coverage once service provision begins. Thus far, the risk pools remain small: MC has about 1,000 subscribing households, while MAF has 500-600. Efforts to increase the size of the risk pools are underway, and MAF has been underwritten by the African American Insurance Company (AFRAM), which will market the plan as an alternative to its unprofitable indemnity insurance. MC is also in negotiation with several insurance companies to act as underwriters and market the plan. Insurance companies are exploring ways to reduce or eliminate losses from health coverage, particularly through cost control measures. Some measures used by MC and/or MAF include: (1) mandatory deductibles and copayments; (2) photo identification cards and clinic registration to prevent user fraud; (3) pre-determined fees for services; (4) limits to reimbursement for certain services; (5) a strict referral system for specialized services; and (6) independent review of drug prescriptions and laboratory tests and analyses requested by physicians. The MC director has established a long-term objective of creating an HMO for all service provision. There are currently no HMOs in Côte d'Ivoire. However, the *Hôpital Protestant de Dabou (HPD)* has expressed an interest in developing a risk-sharing mechanism (e.g., insurance) that would increase the purchasing power of the surrounding population with respect to health care. The hospital, once run by expatriate missionaries, is now an indigenous NGO, with a deep commitment to affordable care and community participation. Discussions are underway with Government to allow the hospital to manage surrounding public sector primary health facilities to create a pilot private sector Health Zone which would rationalize health services and reduce costs. The HPD has a well-established cost-recovery policy (50% of its revenues are from user fees) and a wide array of cost control mechanisms which would enhance its likelihood of success as a health maintenance organization.

d. Problems

The major problem in trying to develop financially viable insurance plans in Côte d'Ivoire is the lack of adequate data on the cost and utilization of health services from which to assess financial risk and determine appropriate premium levels. Financial and administrative information systems in the insurance industry are inadequate, and computerization is limited. According to several insurance companies, premiums are adjusted solely on the basis of the aggregate ratio of health care costs to total premiums. Although the insurance companies have records of costs reimbursed for hospitalization, outpatient visits and drugs, they do not have information on the number of outpatient visits and hospital admissions, repeat visits or the average length of stay. Thus, it is difficult to estimate utilization rates and average unit costs for health services among the insured population. As a result, data on the existing insured population could not be used as a starting point in setting appropriate premiums for mutual associations. Some mutual associations have based their initial premiums on rough estimates of service utilization by households paying all or most of the cost of care, with some kind of adjustment to take into account the expected increase in demand under an insurance plan. More detailed study of existing data on cost and utilization of health services at private--and even public--hospitals is necessary to assess the financial viability of these mutual associations at prevailing premium rates, and to make necessary adjustments. In addition, these mutual associations will have to maintain adequate financial and administrative information systems in order to adjust premiums and control costs in the future.

Another problem is the limited public awareness of how insurance plans and managed care arrangements work, and what benefits they have to offer. Low and declining real income levels will also hinder acceptance of health insurance. Mutual associations will face the inevitable conflict between trying to keep premiums low (best achieved by only covering rare "catastrophic" events) and trying to offer comprehensive coverage (customers want coverage of outpatient visits and prescription drugs). In addition, there may be some opposition from professional associations (physicians, pharmacists) to negotiated rates for services, or anything which challenges the policy of administered prices for consultations and drugs. HMOs are often accused by physicians of limiting their autonomy. However, the prolonged economic crisis in Côte d'Ivoire--and its negative impact on the demand for health services--has amply demonstrated to physicians and pharmacists the need for greater flexibility in the pricing and provision of care. Weak demand for services, a lack of bank credit, and professional barriers to market entry still prevent young physicians from setting up new clinics.

e. Solutions

USAID could structure a three- to five-year intervention aimed at promoting affordable health insurance and managed care in the private sector. Three options were presented above, in order of increasing cost and ambition: (1) support to mutual associations alone; (2) transformation of an existing private hospital into an HMO; and (3) creation of an HMO staffed by young physicians seeking employment in the private sector. Under all three options, USAID intervention should include:

(1) Long- and short-term technical assistance in financial management of insurance plans and/or HMOs, assessment of financial risk, calculation of premiums, development of information systems and data analysis;

(2) Equipment and supplies necessary for strengthening information systems and reinforcing the capacity for financial management;

(3) Short-term training and study tours to introduce insurance and managed care concepts, and review the experience of developed and developing countries with mutual associations and HMOs;

(4) Support for marketing studies and media campaigns to increase public awareness of health insurance, and to market the insurance plan;

(5) A revolving fund for the import of generic drugs by mutual associations and/or HMOs. Due to its NGO status, the *Hôpital Protestant de Dabou* is authorized to import drugs for use in its facilities. It imports bulk generic drugs from Europe which are generally less than half the price of brand-name drugs sold in private pharmacies in Côte d'Ivoire. USAID should encourage Government to allow non-profit mutual associations to import generic drugs, and provide seed money for these imports through a revolving fund;

(6) An Insurance Guarantee Fund (IGF) to reduce the risk of financial loss faced by the mutual association, the HMO or the commercial underwriter of the insurance plan (see Chapter II for a detailed description of the IGF). If appropriately managed, premium levels should be set to ensure that the insurance plan breaks even. However, the financial risk involved is considerable, especially for a small-scale mutual fund or HMO, and it is exacerbated by the inadequacies of existing data and the goal of reaching a broader segment of the population. The amount set aside by USAID as ioss reserves would depend on the size of the risk pool covered and the share of the risk assumed by USAID-- all decisions which USAID would control;

(7) Capital investment, to the extent necessary under the option selected. Little or no capital investment would be necessary if USAID chose to support mutual associations alone. Some capital investment may be needed to upgrade facilities and equipment in the proposed Dabou Health Zone. Considerable capital investment would be necessary to set up an HMO, either in the form of grants or loans. Alternatively, USAID may be able to offer loan guarantees to commercial banks to provide the necessary capital. USAID would need to carefully evaluate the capital requirements under this option.

g. Benefits

This intervention would have a "people-level" impact of increasing the purchasing power of the insured population, both through the redistribution of income from the healthy to the sick, and through the reduction in costs associated with managed care. Increased purchasing power would lead to increased access to health services, and a subsequent improvement in health status (reduction in the frequency and/or duration of morbidity). It would be a pilot activity in the private sector, aimed at assessing the financial viability of non-profit insurance plans and managed care facilities, and demonstrating their sustainability and replicability throughout the country, as well as in other African countries. It would provide a model for private sector alternatives to public sector care (e.g., the privately-managed Dabou Health Zone), as well as generate ideas for organization of public sector, or joint public-private sector, insurance plans and managed care facilities. On an aggregate level, activities such as these would reduce the cost of health insurance and private sector care, making both more affordable to a broader segment of the population than is currently being served by the private sector. It would shift demand for health services from highly subsidized public facilities to the private sector, increasing the demand for health professionals in the private sector and alleviating the current employment problem for young physicians. An initial pilot activity obviously cannot resolve this problem, but the solution it proposes--to generate demand for private sector services by increasing consumer purchasing power--is the only sustainable solution for long-term employment of physicians.

h. USAID Feasibility Criteria

With the exception of one criterion--adequate management resources--this recommendation meets the feasibility criteria set forth by USAID, as summarized below.

- Financial Resources: Under a three- to five-year project, USAID would need an estimated US$ 0.5 million per annum to finance technical assistance, associated equipment and supplies, training and study tours, and marketing and media campaigns (elements a-d, listed above). Other elements of the project could be tailored to resource availability. This includes a revolving drug fund (which is a desirable, but not essential component of the program), the Insurance Guarantee Fund (which is a set aside for the risk of financial losses, and can be set at any level desired), and capital investments (which could be substantial if USAID chose to support the creation of an HMO). A rough estimate would indicate a total cost of US$ 2.0-5.0 for a three- to five-year project component--an amount within USAID funding capabilities.

- Management Resources: It is highly recommended that the proposed project component be managed independently, by a private firm with expertise in financial management, accounting, information systems and actuarial analysis. The PMO/Health Unit in the mission has indicated that existing staff are fully occupied with implementation of a five-year project aimed at strengthening public sector health services, and would be unable to manage complementary activities oriented toward the private sector. Thus, it is likely that a full-time resident advisor would be needed to ensure the success of this component and other private sector health initiatives in Côte d'Ivoire.

- "Comparative Advantage": Within the donor community, the United States has the greatest experience in establishment and management of health maintenance organizations, and has provided technical assistance (from HHS and other government departments) to a number of developing countries (particularly in Latin America) in setting up HMOs. Although USAID itself may not have a great deal of experience in the management of insurance plans and HMOs (which are highly innovative activities in the African context), the U.S. private sector offers a wealth of individuals with the relevant skills. Indeed, USAID has begun promoting health insurance mechanisms in Latin America, Asia and Africa under the rubric of "social financing of demand for health care" through the centrally-funded Health Financing and Sustainability Project (prime contractor: Abt Associates).

- Complementarity: The proposed project component is fully in keeping with the USAID objective of increasing access to affordable health care in Côte d'Ivoire. By shifting some demand into the private sector, it allows the public sector to better focus its resources on subsidized care for the poorest segments of society.

- Monitoring and Evaluation: If appropriate financial and administrative information systems are introduced, they will permit continual monitoring and evaluation of the financial viability of the insurance plan, and the effectiveness of cost control measures under managed care. To gauge the impact of the insurance plan and managed care on consumer purchasing power and health status, a controlled experiment would be needed to compare utilization of health services and relevant health indicators for an insured population (the experimental group) and an uninsured population (the control group).

- Prospects for Success: The ideas presented here are innovative for Africa, and will be a challenge to implement successfully. Insurance plans in Africa--usually managed by the public sector--have often failed due to inadequate incentives to control the cost of care, insufficient analysis and adjustment of premiums to ensure financial viability and misuse of revenues for unrelated activities. It is a positive sign, however, that mutual associations are spontaneously forming in the private sector in Côte d'Ivoire, and private insurance companies are searching for alternatives to their traditional indemnity insurance for health coverage. There is also general agreement among the Government, physicians and the insurance industry on the need to increase consumer purchasing power and reduce the costs of care in the private sector. While Latin America offers a number of examples of successful HMO development, Zaire may offer the most relevant experience for Côte d'Ivoire: the success of the Bwamanda Rural Health Zone (described in Volume III) permits cautious optimism that Côte d'Ivoire could succeed with something like the proposed Dabou Health Zone or an alternative insurance plan. However, the high cost structure in Côte d'Ivoire--a function of the overvalued exchange rate--could do more to undermine the success of an insurance plan than any other weakness in the health sector.

2. Enhance the role of informal sector health care providers--private nurses (*infirmiers privés*) and traditional healers (*guerrisseurs traditionnels*)--as the first line of defense against the most common illnesses: malaria, diarrheal disease and sexually-transmitted diseases.

a. Description

USAID would offer training, IEC materials and social marketing of inexpensive products for treatment and prevention of the most common diseases. A survey of *infirmiers* and *guerrisseurs* indicated that the illnesses they treat most frequently are malaria, diarrheal disease and various sexually-transmitted diseases (the *infirmiers* also frequently treat minor injuries and give injections of prescribed drugs). Treatment of these illnesses presents an opportunity for health education and prevention of future episodes which is currently underutilized. To improve the quality of care, simplify and rationalize treatment algorithms and seize the opportunity for health education, USAID would provide *infirmiers privés* and, possibly, *guerrisseurs traditionnels* with the following:

(1) Prevention and Treatment of Malaria: Training in prevention and treatment, particularly to stem the rampant growth of chloroquine-resistant strains; supply of IEC materials (e.g., posters, flip charts, pamphlets) to promote the use of effective prevention measures; social marketing of treated mosquito nets, insect repellant and other prevention products which are favored in areas with high levels of chloroquine-resistant malaria;

(2) Growth Monitoring and Diarrheal Disease Management: Training in growth monitoring and oral rehydration therapy; provision of scales, charts and other equipment for growth monitoring, supply of IEC materials for nutrition education (e.g. breastfeeding, weaning) and ORS therapy; social marketing of ORS packets;

(3) Prevention of Sexually-Transmitted Diseases : Training in protection against STDs--including HIV/AIDS--and promotion of family planning; IEC materials on avoiding STDs, and on the benefits of family planning (particularly oriented toward men); social marketing of oral and injectable contraceptives to create resupply points for contraceptive users (condoms are already widely available through social marketing).

In addition, USAID could assess the need for laboratory facilities accessible to *infirmiers privés*. The *Syndicat National des Infirmiers autorisés* requested assistance from USAID in creating a lab facility in urban areas which would be open to private sector *infirmiers* for simple lab tests in order to enhance diagnosis and treatment.

b. Background

With limited purchasing power, consumers turn to lower-cost private nurses and/or traditional healers, who are located in *quartiers populaires* and villages, for some of their primary health care. Many of the private nurses are retired civil servants with official diplomas, but many more are *"clandestins"* operating without--or with falsified--licenses and/or diplomas. Some have little or no academic or on-the-job training in diagnosis and treatment. Given the great variability in skill levels, it is not surprising that consumers turn to private nurses only for diagnosis and treatment of the most common diseases, such as malaria and diarrhea. In addition, they are seen as a discreet source of treatment for STDs and unwanted pregnancies. Most private nurses in Côte d'Ivoire are male. The traditional healers (both male and female) usually have no academic background in health care, but have lengthy apprenticeships with the older generation of healers in their villages.

c. Current Activities

Infirmiers privés offer very little preventive care and health education. Malaria is treated through prescription of nivaquine and a variety of specialty drugs--usually three or four drugs prescribed simultaneously. The recommended algorithm is to prescribe nivaquine initially, followed by stronger drugs in resistant cases only. Prescribing nivaquine with several other drugs simultaneously (e.g., overprescribing drugs which are still effective in chloroquine-resistant cases) only serves to build up resistance to these drugs. Diarrheal disease is also treated with a variety of drugs. Some *infirmiers* interviewed said they advised mothers to make a *bouillie* with cereal, sugar and salt to rehydrate children with diarrhea. However, they found that women preferred to buy ORS packets--which have the appearance of "modern medicine"--rather than rely on an equally effective home remedy. Nurses reported difficulty in obtaining a steady supply of ORS packets in the private sector. They frequently treat STDs, particularly among men, but do little counseling on avoiding future episodes, despite the recognized risk of HIV/AIDS transmission. Traditional healers treat all of these problems with a variety of plant- and mineral-based compounds.

d. Problems

Most of the *infirmiers privés* are poorly trained and/or have received no updating to training received decades ago. Information on new drugs comes to them largely through the companies marketing these drugs. Many of them are not well-informed of recent changes in the epidemiology of diseases (e.g., resistant malaria) or advances in treatment. As a result, their treatments can be less effective and more costly than they need to be. Some aspects may even be harmful, such as overprescribing antimalarial drugs or failing to recommend ORS therapy in diarrheal cases. Opportunities for health education and preventive medicine are also lost because nurses lack training in effective IEC skills, and lack materials such as flipcharts and pamphlets to reinforce messages. USAID must also decide whether to support the training of *"clandestins"*, despite opposition from the Government and the *Syndicat*, who wish to close them down. Likewise, training *guerrisseurs traditionnels* in "modern medicine" is controversial, and may not be cost effective. With respect to the preliminary recommendation that *infirmiers privés* be trained as community-based family planning providers (see MAPS Volume III: Private Sector Provision of Health Services), it was found on further investigation that many male nurses were willing to provide family planning services to women only if they came with their husbands and had their husbands' approval.

e. Solutions

Restrictive attitudes among male nurses regarding the autonomy of women precludes their use as community-based family planning providers. However, they could still play a useful role in educating men about family planning, and serving as a resupply point for women using oral and injectable contraceptives. USAID should focus on improving the quality of care for the few key illnesses for which people already go to private infirmaries: malaria, diarrheal disease and STDs. Emphasis should be placed on simplifying and rationalizing treatment algorithms to make them more effective, less costly and void of any harmful effects. Training is needed, as well as access to inexpensive products which are effective in prevention and treatment. Enhancing the role of *infirmiers privés* as community health educators through training in IEC skills and provision of materials is also recommended. All efforts by Government to crack down on "*clandestins*" have been to no avail. They reappear, and often represent the only source of primary health care in poorer neighborhoods. Under these circumstances, it would be advisable to train these nurses to effectively diagnose and treat the most common illnesses, and--perhaps most importantly--recognize when symptoms surpass their limited expertise and require referral. USAID will need to reach agreement with Government on offering training to all private nurses, regardless of academic background or credentials, in a non-threatening locale. Otherwise, the "*clandestins*" will avoid a situation which could potentially expose them to Government scrutiny. Additional study is also needed to determine whether traditional healers would be receptive to training in these areas, and whether they would be a cost effective means of extending high-quality primary care into rural areas.

f. Benefits

The recommended intervention addresses the leading causes of morbidity and mortality among infants, children and young adults in Côte d'Ivoire--malaria, diarrheal disease and HIV/AIDS. It would enhance the skills of informal sector health care providers, give them access to effective and inexpensive treatments, and improve the quality of care at the community level. People tend to go to private infirmaries and traditional healers first, in the hope of avoiding lengthy waits and/or high-priced care at clinics and hospitals. By making treatments more effective and promoting preventive care at the community level, this intervention would lower the incidence of morbidity and the duration of illness episodes, and reduce the number of cases which need to be "escalated" to the next level of care.

g. USAID Feasibility Criteria

This recommendation responds to the feasibility criteria as follows:

- Financial Resources: This intervention can be tailored to USAID resource availabilities. The main parameters determining the cost of this intervention include: (1) the number of nurses trained; (2) the number of urban centers covered by the intervention; (3) the subsidy element of socially marketed products; and (4) the inclusion/exclusion of village-based traditional healers. A pilot project in one urban center (Bouaké, for instance) is recommended as a means of testing the effectiveness of the intervention, and would also keep initial costs down.

- Management Resources: Staff in the PMO/Health Unit have the relevant skills to manage this project component, which consists largely of training and social marketing--two areas where USAID has considerable prior experience. However, staff members are reluctant to take on additional responsibilities in light of their on-going project activities to strengthen public sector health services.

- "Comparative Advantage": USAID is the only donor with experience in social marketing. In addition, USAID has supported training programs and established training teams for civil servants (particularly *infirmiers* and *sages femmes*) which are of a similar nature to the training programs proposed here. One area where USAID may not have an advantage is in the supply of products such as ORS packets and treated mosquito nets. By limiting itself to U.S. suppliers, USAID often pays a premium over competitive world market prices for these products. Whether this higher cost is passed on to Ivorian consumers depends on the subsidy element included in the social marketing program.

- Complementarity: This intervention is entirely in keeping with USAID priorities for the promotion of community-based primary health care. By creating a "first line of defense" against common illnesses through private sector providers in *quartiers populaires* and villages, it eases the primary health care burden on public sector facilities. Currently, donor support for private sector health services is almost entirely through non-governmental organizations (NGOs), rather than through the for-profit private sector. Only France is reportedly supporting several for-profit primary health care facilities.

- Monitoring and Evaluation: Monitoring the outputs of this project component would be relatively easy, and would include: (1) the number of trainees completing the program; and (2) the sales volume of socially marketed products. Evaluating the impact of the project component on quality of care and improvement of health status would be more difficult. Evaluating the performance of health care providers relative to a "quality of care checklist" for each of the three illness areas (malaria, diarrheal disease and STDs) would be one way of assessing impact which has been used successfully elsewhere to evaluate family planning providers. Exit interviews with clients on their reasons for choosing this provider, and their satisfaction with the quality of care, would be another possible means of evaluating project impact.

- Prospects for Success: This recommended intervention will be successful only if both USAID and Government fully recognize the contribution that informal sector providers can make to primary health care in Côte d'Ivoire. *Infirmiers privés* have often been dismissed as "obsolete" and "untrainable", while *guerrisseurs traditionnels* have largely been ignored. Yet, both remain the health care providers of first resort for poorer segments of the population. The *infirmiers* interviewed made efforts to keep up on new developments in diagnosis and treatment, but had limited sources of information. They expressed a strong interest in training/refresher courses. However, USAID would need to organize training sessions open to all nurses, including "*clandestins*", without fear of Government scrutiny. Working with traditional healers would be highly innovative, but has recently proven successful in countries such as Kenya, because they are trusted by villagers, and serve as local opinion leaders.

3. Support a program of policy reform in the private sector pharmaceutical market aimed at reducing barriers to market entry, stimulating price competition and promoting use of generic drugs.

a. Description

The pharmaceutical market in Côte d'Ivoire is the least competitive of the private health care markets. There are significant barriers to market entry at the importing, wholesale and retail levels, while Government and the private *Syndicat* effectively collaborate to enforce fixed wholesale and retail prices throughout the country. USAID could provide financial support for a medium-term program of policy reform aimed at liberalizing the market and reducing the price of drugs. Among the policy measures to be undertaken are:

(1) Revision of Licensing Criteria for Pharmacies: Licenses should be granted automatically to all investors who have qualified pharmacists to oversee operations and adequate facilities and equipment for storage and dispensing. Investors need not be pharmacists themselves, as long as qualified pharmacists are on staff to supervise operations. If these criteria are met, neither Government nor the *Syndicat* should have a deciding voice in granting the license or determining the location of the pharmacy.

(2) Revision of Licensing Criteria for Importers/Wholesalers: Licenses should be granted automatically to all importers/wholesalers who have qualified pharmacists on staff to oversee operations and adequate facilities and equipment for import, storage and distribution. Companies need not be 51% owned by Ivorian pharmacists, as is currently the rule.

(3) Revision of Procedures for Approval to Market Drugs: Government alone should assess the technical merits of drugs submitted for marketing approval, without the involvement of the *Syndicat* or other private sector entities who stand to benefit from the sale of particular drugs. Approval of a drug should carry with it approval to import generic equivalents or other, identically-formulated brand-name drugs (subject to quality control at time of import).

(4) Reversal of Decision Granting a Monopoly to CIPHARM: Currently, CIPHARM has a *de jure* monopoly of the domestic market for aspirin and nivaquine. Government should reverse a recent decision to extend CIPHARM's monopoly to more than a dozen common drugs, shutting out three to four times as many imported brand-name and generic equivalents.

(5) Liberalization of Drug Prices: Fixed, *ad valorem* mark-ups should be abandoned in favor of liberalized prices at the retail level. This would stimulate price competition among the more than 320 retail pharmacies in order to capture market share. However, price regulation will be necessary in the import/wholesale market, due to its oligopolistic structure (only two authorized dealers, both Ivorian-French ventures). Government should establish maximum mark-ups or profit margins at the wholesale level to act as price ceilings. These ceilings should be regressive margins, in order to provide greater incentive to market low-cost products.

(6) Substitution of Generic Equivalents: Pharmacists need to be granted clear rights to substitute generic equivalents for brand-name drugs unless specifically prohibited by the prescribing physician. No definitive measure has been taken to grant this right to pharmacists, although recent discussions among Government, pharmacists and physicians have created confusion about the generic substitution policy.

USAID would support these reforms with financial assistance in three areas. First, USAID would strengthen the national pharmaceutical laboratory, giving it sufficient capacity to undertake quality control testing on all shipments of imported drugs in a timely manner. This would alleviate concerns expressed by Government that liberalization of the import market would reduce the quality of drugs being imported into Côte d'Ivoire. Government tends to confuse liberalization of the formal sector market with informal smuggling activities, although the policy reforms proposed would do nothing to encourage--nor discourage--the existing smuggling problem, which is largely related to exchange rate mismanagement. Second, USAID would finance information campaigns, targeted to pharmacists, physicians and the public, to make them aware of lower-cost generic equivalents to brand-name drugs, and stimulate demand at all levels. In addition, USAID could assist in providing information on the international market to potential importers. Third, USAID could join with other donors in directly encouraging entry into the import market through a Private Sector Drug Import Fund--a pool of foreign exchange held by the central bank which would be earmarked for drug imports by private sector firms entering the market. Firms could then apply for short-term commercial credit through the banking system to finance imports.

b. Background

The private pharmaceutical market exhibits a certain degree of vertical integration, and exists in an environment of self-regulation which favors pharmacists, importers and suppliers--at a cost to Ivorian consumers. To import and wholesale drugs, a company must be 51% owned by Ivorian pharmacists (about two-thirds of the pharmacists in the *Syndicat* own shares). The remaining shares of Côte d'Ivoire's two authorized import companies are held by French interests, who reportedly also manage daily operations. These two companies also manage several dozen retail pharmacies which had previously experienced financial difficulties that had prevented payment of the importers. Nearly 90% of all imports are from French drug companies or the French subsidiaries of multinational drug companies. Few generic drugs are authorized for sale in France, thereby restricting their flow into francophone Africa. The *Syndicat des Pharmaciens privés*, which represents retail pharmacists and the importing companies in Côte d'Ivoire, sits on the committee (along with Government and the *Ordre National des Pharmaciens*) which approves drugs for import. Approval is granted only to the specific brand which was submitted--generic equivalents and other identically-formulated brand-name drugs must be submitted separately for approval. The same interests are represented on the commission which grants licenses to open new pharmacies and approves their location. This commission also has the responsibility for setting drug pricing policy, subject to approval by the Ministry of Commerce and the Cabinet. Prices are fixed and uniform throughout the country, and pharmacists do not currently have the right to substitute generic equivalents or other identically-formulated drugs for brand-name drugs prescribed by physicians.

c. Current Activities

Despite expressions of grave concern over the quality of generic drugs, the Government has heeded donors' calls to import more generics through the public sector. Government also held a conference in late 1992 with representatives of the private pharmaceutical industry to review policy in the sector and urge the private sector to market generic drugs, as well. Indeed, some generic drugs are already being marketed by the two authorized importers, but many retail pharmacists are not aware of these generic equivalents (in fact, many retail pharmacists had never heard of generic drugs when questioned for this report). Nor do pharmacists have the right to substitute generic equivalents or other identically-formulated drugs for brand-name drugs prescribed by physicians. The issue of substitution by pharmacists was raised at the conference, but was heavily opposed by physicians. No definitive action has been taken on this issue. However, Government has formed a committee to prepare a *Guide thérapeutique* for pharmacists and physicians which identifies brand-name drugs and their generic equivalents. The timetable for production and distribution of this guide has not been established. A worrisome development is the decree granting CIPHARM (in conjunction with multinational firms) a monopoly of the domestic market for more than a dozen drugs, shutting out three to four times as many competing imports--including all generic equivalents. Thus far, CIPHARM produces only nivaquine and aspirin, but agreements have already been signed with multinational companies for production of a number of antibiotics and antimalarial drugs. Government has also recently authorized a third import company (PHARMACOM) which is 100% Ivorian-owned, but not yet operational.

d. Problems

The policy reforms proposed here will face heavy opposition from the *Syndicat des Pharmaciens privés*, the *Syndicat national des Médecins privés*, the two authorized importers (and the French interests who manage them), CIPHARM and those in Government with ties to the pharmaceutical industry. Retail pharmacists will oppose the liberalization of prices, the revision of ownership criteria and the loss of power to approve new licenses and pharmacy locations. Gompci, Laborex and their French shareholders will resist the revision of import criteria and all efforts--including establishment of a Private Sector Drug Import Fund-- to encourage entry into the import market and diversification of suppliers. CIPHARM will fight to maintain its monopolies under the policy of *préference nationale* for domestic production. Physicians will argue against granting pharmacists the right to substitute generic equivalents, on the grounds that low-quality, harmful drugs will be substituted for well-known, high-quality brands. Government sees liberalization of the market as a loss of control which will expose the country to dangerous, ineffective drugs. In general, both Government and the industry view competition in the pharmaceutical market as destructive and disloyal--*"concurrence déloyale"* is the oft-repeated expression. In short, convincing Government to implement these reforms will be a battle, and Government will be joined in its opposition by powerful Ivorian interest groups and an even more powerful donor: France.

e. Solutions

There is no easy solution to the problem outlined above. For the vested interests who benefit from the *status quo*, the recommended policy reforms will always be a bitter pill to swallow. Nor does USAID have the necessary resources to support this reform process alone. It is recommended that USAID approach the World Bank, with its strong interest in health sector reform, as well as other donors in the sector, to develop a common position and pool resources for the Private Sector Drug Import Fund. The financial leverage provided by this fund will need to be substantial to overcome the political resistance to reform. Support for the national laboratory, to increase its capacity for quality control of pharmaceutical imports, will also be necessary to allay fears that a more diversified group of importers would result in an influx of low-quality and/or dangerous drugs.

f. Benefits

Ivorian consumers are the main beneficiaries of the recommended reform program which seeks to lower the cost of prescription drugs in Côte d'Ivoire. Lowering the cost of prescription drugs in the domestic market is the single most beneficial way of reducing the cost of health care for millions of low- and middle-income Ivorians. Household survey data from 1985 indicate that more than 80% of health expenditures for the median Ivorian household was for pharmaceutical products, mostly drugs. This figure is unlikely to have changed dramatically in intervening years[6]. A competitive pharmaceuticals market is needed to provide the incentives to import lower-cost products, market and distribute drugs efficiently, and reduce wholesale and retail profit margins. The policy reforms recommended here, taken as a whole, seek to create this competitive market structure. Consumers will also benefit from the information campaigns aimed at increasing awareness of generic alternatives, as will pharmacists and physicians. The national laboratory will benefit from financial support and an enhanced role in quality control. The recommended reforms will also favor young pharmacists, importers and other entrepreneurs seeking to enter a previously restricted market. Finally, it should not be forgotten that the

[6] Introduction of user fees at public sector facilities could have lowered the percentage of health expenditures devoted to drugs, whereas declining real incomes would be expected to have increased the share of drugs in total health expenditures.

private sector currently supplies 80% of the domestic pharmaceutical market. A Private Sector Drug Import Fund--a pool of foreign exchange earmarked for private sector drug imports--could be vitally important in maintaining an uninterrupted flow of essential drugs into Côte d'Ivoire in the event of a future devaluation of the CFA franc.

g. USAID Feasibility Criteria

The recommended policy reform program for the private pharmaceutical market is only feasible for USAID as part of a larger effort among donors in the health sector. It fulfills some of the USAID feasibility criteria, but falls short of others:

- Financial Resources: USAID financial resources alone are probably insufficient to leverage the policy reforms recommended, although as a major donor in the health sector, USAID should take an active role in identifying necessary reforms, and should make a substantial contribution (perhaps US$ 3-5 million) to a multi-donor Private Sector Drug Import Fund.

- Management Resources: Staff in the PMO/Health Unit have indicated that they are unable, due to time constraints, to manage any project components or reform programs related to the recommendations of this report. If some or all of these recommendations are implemented, it is advisable that the mission be augmented to include a Resident Advisor for Private Sector Health Services. A consultant with experience in one or more of the recommended areas of intervention (e.g., health insurance, pharmaceutical markets) should be contracted to fill this role.

- "Comparative Advantage": USAID cannot support this reform process alone. The World Bank, given its financial resources and its mandate for sectoral adjustment, is a natural choice to play the lead role in promoting reform. However, as one of the major donors in the health sector, USAID must be an active participant in a multi-donor program--all the more so because the most important bilateral donor, France, is unlikely to offer support for this effort.

- Complementarity: USAID is not currently supporting any activities in the pharmaceutical sector (although Government authorization was necessary for USAID to begin social marketing of condoms outside the private pharmaceutical market). The European Economic Community is providing financial and technical support to the *Pharmacie de la Santé Publique* for a program of policy reforms in the public sector which shares many of the same objectives as the private sector reforms proposed here. The United Nations is also providing considerable support for the import of essential generic drugs through the public sector. It does not appear that any donors are active in the private pharmaceutical market.

- Monitoring and Evaluation: A timetable of monitorable actions would be established to assess progress in implementing policy reforms. The impact of the reform program could be evaluated in many ways, including: (1) entry into the import market; (2) disbursements on the Private Sector Drug Import Fund; (3) movements in drug prices at the wholesale and retail levels; (4) share of generic drugs in private sector imports; (5) public awareness of generic drugs; and (6) extent of generic substitution by pharmacists.

- Prospects for Success: USAID can expect a high degree of political opposition to the proposed reforms, and may suffer the loss of some of the political goodwill that has been earned through less controversial USAID projects in the health sector. Pharmaceuticals are a lucrative business, and success in squeezing profit margins and stimulating competition will be hard-fought and by no means guaranteed. It is also possible that, even if reforms are implemented, market response will be negligible in the short-run, given the depressed state of the Ivorian economy, its high cost structure, the lack of liquidity in the banking system, the advantage of currency convertibility with the French franc, and the longstanding business ties with France. The advantage of a more competitive pharmaceutical market--lower cost drugs--is of such broad benefit to the poor as to make policy reform a high priority. However, reform must occur at all levels of the market; partial reform will be insufficient to evoke the desired market response.

ANNEX I: SUMMARY OF CREP FINANCIALS

ANNEX I: SUMMARY KEY CREP FINANCIAL INDICATORS (1976-1992)

Year	No. of CREPs	No. of Depositors	Deposits (CFAF 000)	No. of Borrowers	Loans (CFAF 000)	Doubtful Loans (000)	Capital (CFAF 000)
1976	4	648	6,654	90	1,646	0	667
1977	25	1,886	20,212	478	12,171	0	1,862
1978	41	3,261	54,747	925	23,469	0	3,529
1979	58	5,084	115,446	1,050	61,708	0	7,713
1980	61	6,767	195,141	2,747	97,958	0	12,402
1984	70	9,956	318,506	3,113	222,117	25,735	21,076
1985	72	10,595	406,478	3,160	268,520	43,031	22,783
1987	75	12,052	501,279	3,098	307,436	152,836	28,691
1990	78	16,891	643,871	2,654	288,887	231,901	41,574
1991	76	17,276	597,656	2,416	253,365	217,302	44,657
1992	76	20,709	612,124	2,136	228,817	208,142	56,957

Source: CREP, World Bank

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ANNEX II: HEALTH INSURANCE INCOME STATEMENT

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ANNEX II: INDICATIVE HEALTH INSURANCE INCOME STATEMENT
(Expressed in CFAF)

Revenues:

Premium Payments from Subscribers:	1,600,000,000	
Sub-total		1,600,000,000

Expenses:

less 14.5% tax on Revenues	232,000,000	
Payments for Health Costs	1,528,000,000	
Administration at 25%	400,000,000	
Sub-total		2,160,000,000
NET PROFIT/LOSS		-560,000,000
NET MARGIN		-35.00%

Source: Discussions with Union Africaine

ANNEX III: WADB REGIONAL BOND OFFERING

The WADB bonds will carry a coupon rate of 10%: all interest accrued over the life of the ten-year bond will be payable, tax-free, in lump sum on maturity. The WADB regards this as a test issue, to be followed, if successful, by others. Its goal is to encourage the development of a regional financial market. As the *Bourse des Valeurs d'Abidjan* is the sole securities market in the entire CFAF zone, the WADB 10% bonds will be listed on the Abidjan exchange. The exchange has created an "international compartment" for this purpose. The bond will also be listable on any securities market that may be created in the West African Monetary Union zone.

A syndicate of banks will act as agents for the bonds:

- BICICI in Côte d'Ivoire
- BICIS in Senegal
- BICIA
- BTCI in Togo
- Bank of Africa (Mali and Benin)
- Sonibank (Niger)

In Côte d'Ivoire, BICICI will collect orders and transmit them to the *Bourse*. WADB expects its key market will be the region's insurance companies, not only because of legislative requirements to hold CFAF instruments as a condition of doing business, but also because of last year's reform and harmonization of national legislation on insurance in the CFAF zone which favors institutional investors. The 10 July 1992 treaty signed in Yaoundé among African insurance companies permits total freedom for placements within the CFAF zone. However, 20% of a company's reserves must be placed in the national currency of the country in which it is registered.

On December 22, 1992, WADB representatives met in Paris with representatives of insurance companies with operations in Africa (UAP, AGF, PFA). They will buy into this issue. At 9/30/92, WADB's total assets were CFAF 204 billion, and net in fiscal 1992 was CFAF 2.9 billion.

ANNEX IV: HEALTH PRICE ELASTICITIES

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Table 6-3. Arc Price Elasticities for Adults in Rural Côte d'Ivoire

	Income quartile			
Fee[a]	*1*	*2*	*3*	*4*
Clinic				
0–50	–0.61	–0.58	–0.53	–0.38
50–100	–1.16	–1.03	–0.91	–0.56
100–150	–1.83	–1.71	–1.57	–0.93
Hospital				
0–50	–0.47	–0.44	–0.41	–0.29
50–100	–0.86	–0.81	–0.76	–0.51
100–150	–1.34	–1.27	–1.18	–0.71
Mean income[b]	33.28	64.44	99.52	222.87

Note: Quartile 1 is lowest.
a. Ivorian CFAFs.
b. Thousands of Ivorian CFAFs a month.

Table 6-4. Arc Price Elasticities for Children in Rural Côte d'Ivoire

	Income quartile			
Fee[a]	*1*	*2*	*3*	*4*
Clinic				
0–50	–0.90	–0.80	–0.67	–0.31
50–100	–1.81	–1.56	–1.29	–0.51
100–150	–2.82	–2.43	–1.98	–0.66
Hospital				
0–50	–0.65	–0.58	–0.49	–0.12
50–100	–1.34	–1.17	–0.98	–0.20
100–150	–2.32	–1.98	–1.60	–0.48
Mean income[b]	33.28	64.44	99.52	222.87

Note: Quartile 1 is lowest.
a. Ivorian CFAFs.
b. Thousands of Ivorian CFAFs a month.

Source: Gertler, Paul and van der Gaag, Jacques, The Willingness to Pay for Medical Care, World Bank, 1990

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